Opportunities and obstacles of different pricing models for early-stage SaaS companies in retail and e-commerce

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Abstract:

Pricing is one of the most crucial but complex and difficult tools a business or company has in a free market. The aim of this research was to evaluate the opportunities and obstacles of different pricing models for early-stage SaaS companies in retail and e-commerce. The first research question asked what the main opportunities and obstacles that the buyers and sellers face with different pricing models for SaaS solutions are, and the second research question asked if value-based pricing models are attractive for sellers and buyers alike. The chosen research method was a qualitative study focused on in-depth semi-structured interviews with the main source being six industry experts and decision-makers from either the e-commerce, retail or SaaS industry. The literature review covers pricing research, value-based pricing, Software-as-Service, risk aversion and incentives. The research results indicated customer participation and accessibility being the broad theme regarding opportunities, and barriers to successful implementation being the broad theme regarding obstacles. Transparency, predictability and flexibility were key opportunities, while risk management, complicated pricing models and lack of trust and commitment were the biggest obstacles. Obstacles prevailed when looking at value-based pricing, as it was considered complicated, risky and resource-heavy, and the identified opportunities included managed services and partial implementations. The complexity of the subject led to some limitations, which in turn can encourage future research on the subject.

Keywords: Pricing model, SaaS, Retail, E-commerce, Value-based pricing, Customer Participation, Risk Management

Contents

1 Introduction

"Developing an appropriate pricing strategy is both crucial and highly complex" (Gijsbrechts, 1993, p. 115). Pricing is one of the most crucial but complex and difficult tools a business or company has in a free market. According to Simon-Kucher and Partners, a global strategy consulting firm, report on the State of Pricing 2024 (Simon-Kucher, 2024), true pricing power, meaning where revenue grows more than costs, is only possessed by 65 % of companies worldwide. To grasp the concept of pricing or pricing strategies, one can divide it into a few different key elements, namely external and internal factors, such as the environment the business is in, the relative target price level, such as competition, customer value and costs, and the intended pricing objective, which usually is either growth or profit maximisation (Noble & Gruca, 1999). Töytäri and Rajala (2015) found that value verification among customers supports value-based pricing. Sharing these results openly with customers can lead to the implementation of value-based pricing.

To understand the current state of pricing, Kienzler and Kowalkowski (2017) did a content analysis of 515 articles between 1995 and 2016, all of which were published in academic journals, and one key takeaway was that most of the articles (68%) focused on pure B2C markets, and only 13 % focused on pure B2B markets. Considering that the dollar value of B2B transactions is on par with B2C transactions, at least in the USA, the difference is alarming. Due to limitations within B2B-specific research, such as data access and sample sizes, B2B-specific research more often tends to be qualitative rather than quantitative, with a more explorative approach. The article also found that qualitative research is more often atheoretical than theoretical. Due to this, the article recommends that publication outlets acknowledge these limitations and consider qualitative B2B-focused research more often. The study also shows that quantitative designs and approaches dominate the field (86 %), and empirical-qualitative articles only represent 7 % of all the 515 articles analysed (Kienzler & Kowalkowski, 2017). Li and Kumar (2022) also emphasised the growth of software-as-a-service (SaaS) and the importance of pricing and operations in the field and proposed several research opportunities for the future. Considering that the global market for SaaS will reach 232 billion USD in 2024 (Statista, 2024), the possibilities and opportunities for research in this area are limitless.

A very interesting takeaway from Kienzler and Kowalkowski (2017) is their proposal for more extensive use of experiments both from the customer (or buyer) and the supplier (or seller) side, which would benefit both research and general practice when it comes to pricing strategies. This implies that, in addition to the research aspect, both the sellers and the buyers would benefit long-term from being more experimental regarding pricing strategies and decisions. One more takeaway is that to get a more in-depth understanding of context-specific pricing strategy development processes, qualitative research designs are to be favoured. The article also warns that more attention is needed towards managerial decision-making on pricing strategies, or else the progress of the field may be hindered, as studies from this point of view have almost halved during the period this article analyses (Kienzler & Kowalkowski, 2017).

The author has also worked for small but growing SaaS start-ups and scale-ups for the last six years and in B2B sales for the last ten years. During these years, it has become obvious that these companies face challenges in pricing practices. The main problem seems to be related to a scalable but fair pricing model, as the focus is usually on costs (internal) instead of the created value for the customer. In practice, many SaaS companies look at several micro factors that affect the price, after which the company analyses the market and competition and aligns it with its own added value, all while considering internal costs.

1.1 Aim and research questions

Based on the preceding discussion, it seems relevant to examine the opportunities and obstacles of different pricing models for early-stage SaaS companies. Special focus is given to modern value-based pricing models, and the main reasons for transitioning to or not to value-based pricing are examined.

My research questions are:

- What are the main opportunities and obstacles that the buyers and sellers face with different pricing models for SaaS solutions?
- Are value-based pricing models attractive both for sellers and buyers alike?

To answer the two research questions, the main source for the empirical data in this study can be divided into two main groups: the buyer side and the seller side. Decision-makers from the retail and e-commerce industry will represent the buyer side, and sales and pricing decision-makers and specialists from the SaaS industry will represent the seller side.

1.2 Structure of Thesis and delimitations

This study is divided into six main chapters. Following the introduction, the second chapter takes a closer look at prior research regarding pricing models, as well as the development of SaaS as an industry. In the third chapter, I will present and explain my choice for the chosen methodological approach, which in this paper is a qualitative semi-structured interview. I will also explain the reasoning behind my chosen sample and delimitation, which in this paper focuses on retail and e-commerce. Chapter four presents the results of the interviews, and in chapter five, the results are discussed along with previous research. The limitations of the study, as well as suggestions for future research, will also be discussed.

Delimitations include limiting this research to cases where the seller, or vendor, is a Finnish SaaS company with a substantial customer base within retail or e-commerce and a yearly revenue of two to ten million euros (based on the latest financial reports available). The buyer side will be represented by Finnish retail or e-commerce companies with a yearly revenue of twenty to five hundred million euros (based on the latest financial reports available). Delimitations regarding pricing models will simplify the approach by mainly comparing value-based pricing with cost-based pricing, or cost-plus pricing, as well as the most used pricing models within SaaS e-commerce and retail.

2 Theoretical framework and literature

The first section covers pricing models, including background and statistics, and a more in-depth look at value-based pricing and perceived value. The second section includes software-as-a-service, more commonly known as SaaS, and its background and applications. The third section reviews factors affecting incentives and risk aversion to understand the psychological approach to decision-making better.

2.1 Pricing research

Kienzler and Kowalkowski (2017) reviewed 22 years of marketing research on the state of pricing and Pricing Strategy Research (PSR), consisting of a total of 515 articles. While they concluded that there has been progress in PSR, there remain multiple research opportunities, and to reduce the divergence between practical and academic concerns, dialogue stemming from results in PSR regarding optimal pricing directions is desirable. A few key takeaways included the need to address service pricing as a complement to other solutions, the need for future research on customers' involvement in participative pricing and future research and theory development beyond established models in order to achieve a deeper comprehension of issues related to customer response to various pricing strategies. Poyar (2021), on the other hand, found in a survey of 2200 SaaS companies that 52 % had never done any price testing.

The global strategy consulting firm Simon-Kucher & Partners surveyed 2 700 companies to better understand the current state of pricing, and one key finding was that while 91 % of the companies had seen growth in their revenue, only 56 % saw an above-inflation revenue growth, and 78 % implemented pricing increases in 2023. Only 65 % of the companies surveyed were considered pricing leaders, meaning that their revenue grew more than their costs, and only 48 % of the planned price increases were achieved after deducting promotional offers, discounts, etc. (Simon-Kucher, 2024)

2.1.1 Value-based pricing

Four academic articles were examined to lay a foundation for value-based pricing: "Performance-based and functional contracting in value-based solution selling" (Liinamaa et al., 2016), "Towards value-driven strategies in pricing IT solutions" (Reen

et al., 2017), “Cost-based price and value-based price: are they conflicting approaches?” (Guerreiro & Amaral, 2018) and “Organizational and institutional barriers to value-based pricing in industrial relationships” (Töytäri et al. 2015).

Töytäri et al. (2015) looked at institutional and organisational barriers to value-based pricing, and the key takeaways relevant to this study can be summarised as follows. The first was no access to influence, as the buyers in these cases primarily looked at the initial purchasing price and market practices. The second is goal conflict, where the incentives of the individual decision-maker and the created value do not align. The third focuses on influencing, or rather the lack thereof, where the seller is unable to influence the buying process at the right time. The fourth aspect is regarding trust, or the lack thereof, as well as access to trustworthy baseline data and metrics, meaning that measuring the actual value delivered becomes an obstacle. The fifth aspect regards perceived fairness compared to the more established cost-based pricing models, where the customers are seldom prepared to share the attained value evenly. The final aspect regards bargaining power, which is a prerequisite for successful value-based pricing, as it determines who captures the value. Considering that professional procurement usually sits on more bargaining power, it’s challenging for sellers to prevail. (Töytäri et al. 2015)

Liinamaa et al. (2016) conducted a collaborative and explorative action research with the title “Performance-based and functional contracting in value-based solution selling”, which took a closer look at the performance-based part of value-based selling and which key finding was the barrier that legal contracts create when it comes to value-based selling. The company in focus needed a new business model due to being unable to capitalise on the value of its new solutions due to old sales processes. The active collaboration took one and a half years, and the data collection included brainstorming sessions, development meetings as well as workshops and debriefings. In addition to this, the researchers reviewed all current relevant processes and documents and attended customer meetings to get an even more objective view. All these inputs had significant impacts on the blueprints for the new model, and the final stage focused on the specification of generalisable learnings. The data analysis was, typical for action research, conducted throughout the project together with representatives from the company. In the end, the results pointed towards a successful project, as the criteria for action research

states that the results must have a practical value, withstand cycles of reflection, action, facilitate further social interaction and active experimentation.

The study's key findings confirmed what Töytäri et al. (2015) reported regarding the barriers to implementing a value-based pricing model. The barriers to value-based pricing and selling included limited possibilities to influence customer organisations due to budget constraints or lack of capacity, among other things. The legal-technical threshold also hindered the drafting of performance-based contracts needed to capture and estimate a share of the increased value. The inability to integrate into the customer organisation also complicated things further (Liinamaa et al., 2016).

The case study of Reen et al. (2017), "Towards value-driven strategies in pricing IT solutions", took a deeper look at a company implementing a value-driven pricing strategy for their services, which they offer in addition to their products. They chose to do this as action research to dig deeper into the change process and understand the process while simultaneously utilizing a collaborative approach, allowing the researchers to continuously take part in the processes and projects on a highly confidential level. Possible biases were rebated by investigator triangulation, meaning the involvement of several researchers and multifaceted analysis and cross-validations. The data collection was mainly done through several thorough interviews with both top managers and heads of business units over a period of two years, as well as workshops and meetings with specialists, sales teams and stakeholders. In addition to this, practically all relevant documentation relating even loosely to pricing was examined, and five customers were interviewed to get a better perception of the true added value. Observations made regarding pricing-related challenges were then analysed according to the three-dimensional pricing model. The practical approach consisted of implementing the developed methods and models through smaller pilot projects to reduce the risk. These, in turn, gave new insights, which were once again tested in subsequent subprojects. As a result, for the academic world, this study contributed to theoretical models for value-driven service pricing. Two key takeaways of this study included the observation that top management doesn't fully understand how value-based pricing works and that the implementation of value-based pricing requires expensive and difficult development of processes, capabilities, skills, and tools (Reen et al. 2017).

Guerreiro and Amaral chose to use a case study for their paper on "Cost-based price and value-based price: Are they conflicting approaches?" which was then structured as an action research method. In this case, this meant that the researchers worked alongside the employees to reach a common but dual objective, contribute to science, and improve the pricing of the company, which in this case was a Brazilian furniture company. In short, the company had earlier used a cost-plus pricing model and wanted now to investigate the possibility if a value-based pricing model could improve their pricing model. Firstly, they sat down and split up every part of the cost structure of the cost-plus pricing model to fully understand it. After this, they built a similar model for value-based pricing, where they only focused on the variable cost of raw materials; the rest of the final price consisted of the value based on, e.g. innovation, the customer's willingness to pay, etc. In the latter case, the sales managers now had much more playing field regarding negotiations. They then tested both models alongside each other, and while the end price didn't necessarily change, this study showed that both models, when combined, can bring both simplicity and value. It was also found that while the mechanics of cost-plus margin might be used in setting the price, the price is not necessarily based on costs, and this approach does not necessarily conflict with a value-based approach. (Guerreiro & Amaral, 2018).

2.2 Software-as-a-Service (SaaS)

2.2.1 Definition and Background

A few years back, Gartner (2021) forecasted that worldwide SaaS (software-as-a-service) would reach a yearly revenue of 145 billion USD by 2022, and according to Statista (2024), the growth even exceeded the initial forecast, continuing its steady double-digit growth. As seen in Figure 1 below, the global market is expected to reach 232 billion USD in 2024. In addition, in their report State of SaaSOps 2023, BetterCloud (2023) estimates that organisations use an average of 130 SaaS applications. But what is SaaS, how can it be applied, and what are the possibilities it brings?

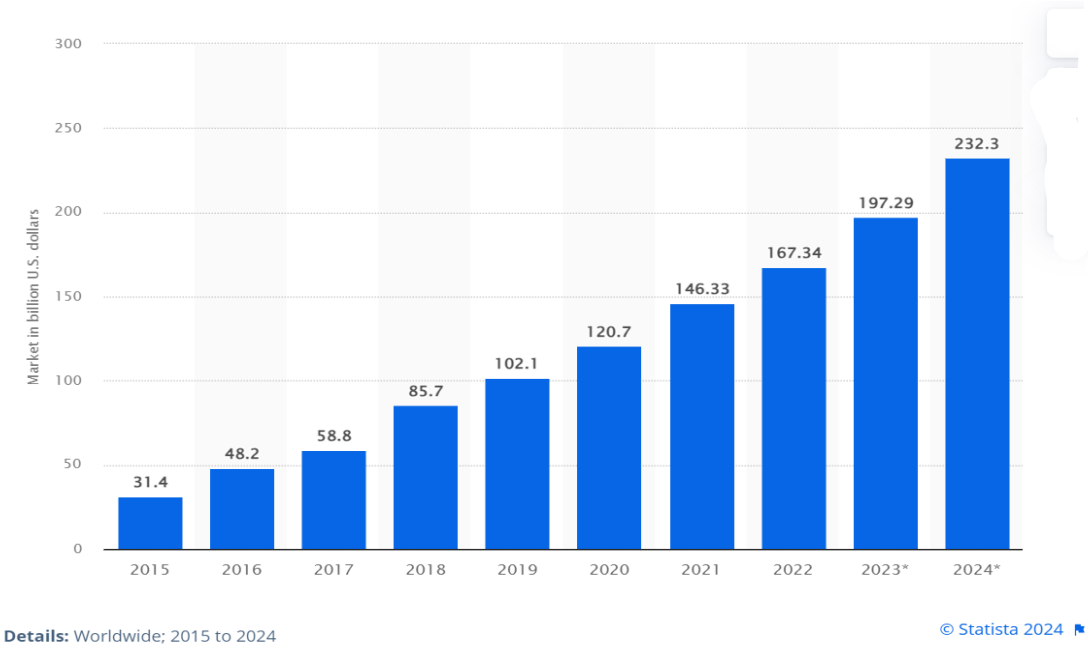

Figure 1 - SaaS end-user spending worldwide in billion U.S. dollars. (Statista, 2024)

According to the National Institute of Standards and Technology (NIST), Software as a Service (SaaS) is described as the provision of application capabilities by a provider running on a cloud infrastructure. These applications are accessible from various client devices and interfaces, with the consumer typically not responsible for managing or controlling the underlying infrastructure (Mell & Grance, 2011). The unique features of SaaS can then be summarised into two categories: the internet delivery aspect of not being dependent on geographical location, integration with third-party applications, congestion and the ease of monitoring, and the multitenancy regarding outsourcing infrastructure, security and privacy, limited user control and the ease of updates and deployment (Li & Kumar, 2022).

Li and Kumar (2022) created a business research framework for SaaS because it is a relatively young concept. While plenty of research has already been done, more is still needed. SaaS research topics can be divided into two main categories, namely pricing and operations, as visualised in the picture below.

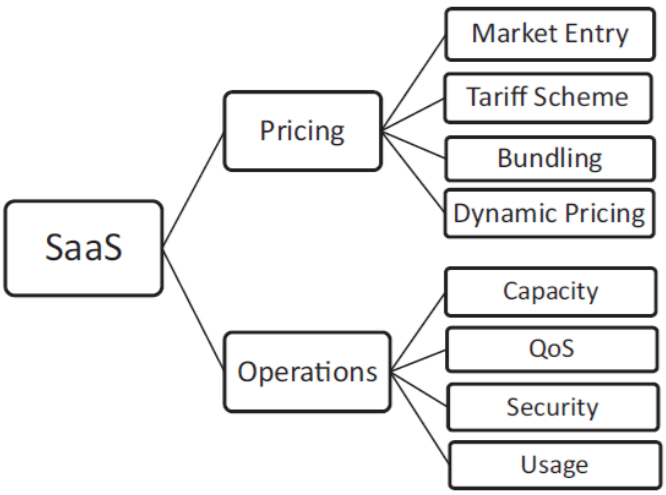

Figure 2 - Topics of SaaS research. (Li & Kumar, 2022, p. 2589)

Li and Kumar (2022) discovered that many customers (within B2B) start with a more basic SaaS solution before moving on to or adapting to more advanced ones. This has led to implementing low-threshold entry-level products and a heavy focus on customer success. With happy customers, it is then easier to upsell or expand the offerings. Another key identifier of SaaS, compared to, e.g. off-the-shelf offerings, is that instead of paying a one-time fee, SaaS is mostly paid for by usage-based monthly billing. Some SaaS providers use subscription pricing, sometimes pay-per-use pricing and sometimes nonlinear tiered pricing. Within B2B SaaS for e-commerce, tiered pricing combined with pay-per-use pricing or transaction-based pricing is the most common approach. An example of tiered pricing consists of three levels, where level 1 is the entry-level product with basic functionality, and level 3 includes all features but is more expensive (Li & Kumar, 2022).

Another key concept and key performance indicator (KPI) in SaaS is churn, where the customer prematurely terminates the use of the service and most commonly switches to another provider or competitor. The best way to combat churn is usually an extensive commitment to outstanding customer service. (Xiao et al., 2020)

Poyar (2021) launched a tool to analyse 2200 SaaS companies and their pricing maturity, and 88% of the respondents represented SaaS companies with a revenue of under 20 million USD. According to the study, 39 % of the respondents mentioned using value-based pricing, which is surprisingly high. However, the definition of value-based pricing is not mentioned, leaving little weight to this number. The primary pricing metrics used were seats or users (41%) and usage or transactions (39%), and 43 % of the companies revisit their pricing more than once a year, with 34 % revisiting it once a year. An alarming finding was that only 6% of all the companies involved had done actual pricing research, and 52 % had never done any price testing; this correlates well with the finding that only 13 % of the companies have a pricing professional, on in a broader sense, assigned pricing responsibility to an employee. Most companies only look at their pricing when the need arises (e.g. due to rising costs). When looking at transparency, only 45 % of the companies publish their pricing on their websites, with it being far more common for companies with an ACV (average case value) of under 1 000 USD (84 %) than companies with an ACV of over 25 000 USD (17 %).

2.3 Risk aversion and incentives theory

Burton et al. (2015, p. 178) describe incentives as follows: “Incentives are means or mechanics designed to encourage certain actions or behaviours on the part of employees, or groups of employees.” They continue by writing that the effect of incentives is not necessarily what management intended but depends more on how employees subjectively interpret and act on the rewards. They also mention that incentives include both monetary rewards, such as bonuses and salaries, as well as non-physical rewards, such as recognition, praise or promotion. Here, the key is that the one receiving the rewards accepts them as fair and reasonable for the effort (Burton et al., 2015).

According to Kerr (1975), it’s a widely accepted notion and agreed upon by both expectancies and operant theorists that most (organisms) seek information on rewarded activities and tend to prioritise them, even if they neglect unrewarded activities. However, there are many instances where reward systems are flawed. In these cases, behaviours that the rewarder intends to discourage are being rewarded, while the desired behaviour receives no reward at all. Kerr then examined different societal examples to understand and explain this phenomenon. One example Kerr looked at included a company and its

president, which faced the choice of either investing 11 million USD in antipollution equipment or opting not to take any action and risking legal repercussions, with a 10 % chance of getting caught. If caught, the company would be fined 1 million USD in addition to the initial investment. In this case, the company and the president could maximise their odds by disregarding the law, considering the president's incentives are likely focused on profit maximisation and completely disregarding pollution. Another example includes a case where a company implements a new system, e.g. in human resources. In this case, those involved in evaluating the system and perhaps also deciding on procuring it are often the ones then in charge of implementation and introducing the change. After convincing top management to invest in a system, they are then quite often biased towards the success of this new system. While management most likely hopes for a systematic evaluation, they will most likely reward for ignorance, meaning the ones implementing will not show the results if they are negative. The same goes for situations or organisations where individual performance is rewarded over overall effectiveness. (Kerr, 1975)

Gibbons (1998) gives three real-world examples to illustrate the dilemma of rewarding A and hoping for B. The first one was the H. J. Heinz Company, where bonuses received by division managers were only paid out if there was an increase in yearly earnings. This led to the manipulation of shipment timings and prepayments of not yet received services. The second example was at Dun & Bradstreet, where commissions were tied to salespeople increasing the yearly invoicing from subscriptions to credit score reports, which later led to lawsuits of deceit and fraud. The third example included Sears auto-repair shops, where mechanics misled customers into unnecessary repairs, as their commission plan was based on the profits from these repairs (Gibbons, 1998).

One last example is a paradox in situations where promotions and salary increases are directly linked to Management by Objectives (MBO). In these situations, employees are required to establish ambitious and potentially risky objectives, only to be faced with reduced pay and potentially jeopardized careers if these goals are not achieved. This will most often lead to lower objectives being set and lower overall effectiveness or profitability (Kerr, 1975).

3 Methodology

This study aims to evaluate the opportunities and obstacles of different pricing models for early-stage SaaS companies, both from a seller's and a buyer's perspective. Special focus is given to modern value-based pricing models and what are the main reasons to or not to transition to value-based pricing.

3.1 Research Method

One key factor influencing the decision on the research method is the chosen sample size (Bryman, 2012). This is also supported in the analysis by Kienzler and Kowalkowski (2017), which also states that B2B studies tend to be smaller than B2C studies. In this thesis, the sample size of six interviewees, divided evenly between buyers and sellers, was deemed to be sufficient.

The chosen research method for this thesis was a qualitative study which focused on in-depth semi-structured interviews with industry experts. As the topic focuses on business-to-business transactions, the experts were represented by both the customer side, the buyers, and the supplier side, the sellers. To get high-quality input from the respondents, the selected interviewees were carefully selected and represented by respected experts in their own field, e.g. sales and pricing leaders or experienced procurement specialists. A semi-structured interview was chosen as the researcher had predetermined a set of themes considered significant for the study, much based on the contents of previous research and literature (Bryman & Bell, 2011),

Semi-structured interviews can primarily be identified by the following aspects. Initially, participants are typically individuals with direct experience in a particular situation. Secondly, the interviewer is anticipated to have conducted preliminary research on the structure, processes, and topic, leading to certain assumptions that lay the base for the interview guide. Lastly, the interviews aim to capture the respondents' subjective and well-informed perspectives on the topic at hand (Hirsjärvi & Hurme, 2006). Other positive aspects of semi-structured interviews include flexibility and depth, all while still sticking to the subject and ensuring that the same themes and subjects are addressed in each interview (Bryman, 2012).

3.2 Data collection and Interview guide

The buyer side is represented by decision-makers from the retail and e-commerce industry, and the seller side is represented by sales and pricing decision-makers and specialists from the SaaS industry. Delimitations include limiting this research to cases where the seller or vendor is a Finnish SaaS company with a substantial customer base within retail or e-commerce and where the end customer is a Finnish retail or e-commerce company.

As a first step, I shortlisted potential well-known Finnish retail and e-commerce companies within the revenue range of 20 million euros to 500 million euros, with their respective potential decision-makers (buyers). I then shortlisted potential SaaS-industry vendors (sellers) aimed at and with a substantial customer base within retail and e-commerce, with a revenue range of two to ten million euros, with their respective potential sales and pricing decisionmakers. As decision-makers can be busy and hard to reach, I prepared a list of approximately twenty potential interviewees (buyers and sellers each) and a list of qualifying questions to ensure the quality of the interviews. A copy of the call script and the qualifying questions can be found in Appendix 1. While I was unable to contact many potential interview candidates, all but two who were successfully contacted agreed to an interview. During the initial discussions, two candidates were disqualified due to too little experience in SaaS procurement. The other six interviewees were successfully qualified, and the interviews were booked by phone during March and April 2024. The interviews were held in April 2024.

Most of the interviews took approximately 45 minutes, except for one which was shortened to 30 minutes due to time constraints and one which was closer to an hour. Consent for audio and video recording, as well as automatic transcription, was requested from all interviewees both during the booking call and before the actual interview, and everyone agreed upon this. Microsoft Teams and Word were used for technical assistance, making it easier to focus on the actual discussion. However, some key notes were taken during the interviews.

Everyone was sent the questions beforehand, and no one implied any limitations regarding answering the questions during any of the interviews. Two sets of interview

questions can be found in Appendix 2, one for the buyers and one for the sellers. One key factor contributing to the openness of the respondents was most likely the agreement of being anonymised in the final paper. The interviews followed a semi-structured layout, including some key questions as well as more open discussions. Three interviews were conducted in Finnish and three in English, depending on the preference and language fluency of the interviewees (Bryman, 2012). For the readability of this paper, the Finnish interviews were translated into English, and all key comments and quotes were corrected into proper English.

The interviews began by repeating and ensuring the consent for recording and transcribing, as well as stating the respondent's rights to refuse to answer questions, as well as the right to anonymity. To make sure everyone was on the same page, a short introduction to the subject was presented to the subject, followed by a few relevant background questions, such as the interviewee's experience in either procurement or pricing in total years and decisions, as well as their current role and past roles and experiences. This was followed by a total of five main themes and 19 questions for the buyers, and six themes and 18 questions for the sellers. However, as this was a semi-structured interview, a logical flow and an open discussion must be guaranteed, as well as being able to change the sequence of some questions and remove others that might already be answered (Bryman & Bell, 2011). The final transcribed interviews ranged from ten to twenty pages of text.

3.3 Respondents

Buyer 1: Development Manager and Executive Vice President with overall P&L responsibility. In charge of all procurement and leading marketing and sales, as well as partnerships. Over ten years of procurement experience with over a thousand, if not thousands, of buying decisions.

Buyer 2: Director of product development with overall responsibility for all development and all systems (e.g. IT). Leading a team consisting of marketing, development (e.g. front-end and UX), IT, support, logistics and product owners. Eight years of procurement experience at the current employer and five more years before that, several hundreds of buying decisions.

Buyer 3: Head of procurement with a budget of a little over 100 million euros for 2024. Three years at the current employer and a total of over fifteen years of experience in sourcing and procurement, including several thousands of buying decisions.

Seller 1: Chief Revenue Officer in charge of sales and partnerships on a strategic level with overall P&L responsibility. Being the second employee in the company, the last eight years have given rigorous experience ranging from product development to sales and pricing. Past pricing experience also includes working as a controller as well as a CRM consultant. Eleven years of total experience in pricing and decision-making.

Seller 2: Sales director with over ten years of experience in the business field and overall P&L responsibility, while still doing active sales. Mainly focusing on customer interface and commercial activities during the last seven years at the current employer, responsibilities such as acting as a stand-in for the CEO is a common practice. Ten years of total experience in pricing and decision-making.

Seller 3: Director of Enterprise Sales and responsible for the EMEA region. Was a key player in building the Enterprise function from scratch, including processes and pricing. Has a background in working with pricing software and marketing. Five years of total experience in pricing and decision-making.

Table 1. Coding of respondents.

Title	**Code**
Development Manager and Executive Vice President	Buyer 1
Director of Product Development	Buyer 2
Head of Procurement	Buyer 3
Chief Revenue Officer	Seller 1
Sales Director	Seller 2
Director of Enterprise Sales	Seller 3

3.4 Description of how the data was analysed

Qualitative research often suffers from the length of the material and the report, so identifying the key takeaways and relevant elements is crucial. Another common issue is that the researcher often processes and treats all details and comments (from the interviewees) as equal in value to secure objectiveness. When analysing interview data, it is important to classify the data, find commonalities among the answers, and reduce the material, as this is crucial to concluding a successful interpretation (Hirsjärvi & Hurme, 2006). As all the interviews were auto transcribed by Microsoft Teams into Microsoft Word, I started by reading through all the transcriptions and highlighting all the relevant comments. I then continued by removing comments and filler words I felt were unnecessary. I started grouping and labelling the comments by similarities regarding topics discussed in the interview in a new Microsoft Word document. By comparing the labelled data, common topics and themes were found, some more recurring than others and some more relevant to answer the research questions, leading to a three-stepped coding. The first line of coding included all relevant comments and topics mentioned in the interviews regarding the aim of the study and the research questions. The second line of coding merged the selected topics into themes, and the third line of coding combined the different themes recognised in the second line of coding into a summarising dimension. The analysis was done separately for the buyers' opportunities, the buyers' obstacles, the sellers' opportunities, the sellers' obstacles and the views on value-based pricing. See figures three through eight in chapter four for an overview of the coding.

3.5 Trustworthiness

As the semi-structured interviews were held with industry experts, they ought to have provided reliable and deep insight into how companies look at the pricing of SaaS when deciding if the purchase will lead to a positive return on investment and increased value. However, their views are still only subjective viewpoints of single individuals and may not be comparable with other similar companies, which must be taken into consideration before making any final conclusions. This study, with six interviews, is thus explorative in character and mainly a pre-study to a more comprehensive study on the topic.

All interviewees were promised anonymity, allowing an open and honest discussion. While I, as the researcher, knew some of the interviewees on a professional level prior to

this study, I did not represent a company with any interest towards the interviewees or the companies they represented in any way. In this sense, my objectivity was also guaranteed.

4 Results

First, the buyer's perspective on the opportunities and obstacles of different pricing models for early-stage SaaS companies (RQ1) is analysed. Second, their view on value-based pricing models is analysed (RQ2). The seller's perspective is then also analysed in the same way. To ensure fluency and effectiveness in presenting the results, the respondents will be identified as follows: Buyer 1 = B1, Buyer 2 = B2, Buyer 3 = B3, Seller 1 = S1, Seller 2 = S2, and Seller 3 = S3.

To answer the research questions, the interviews involved questions on topics such as current experience, preferences and approach, perceived value, value proposition and positioning, behavioural patterns and decision-making processes, market and competitor analysis, satisfaction and feedback, customer insights, value-based pricing and future expectations. For RQ1, I identified two main themes, which can be classified as opportunities and obstacles. I identified that the topics that were described as opportunities had customer participation and accessibility as the common theme. This theme included three subcategories: (1) transparency and communication, (2) flexibility and (3) low threshold. I then identified that the topics that were described as obstacles had barriers to effective implementation as the common theme. This theme also included three subcategories: (1) risk management, (2) complicated and outdated pricing models and (3) trust, commitment and accountability. The same themes and topics were used to analyse the interviewees from both the sellers' and the buyers' sides. The themes and topics are presented in figures eight through thirteen below.

4.1 The Buyer – opportunities

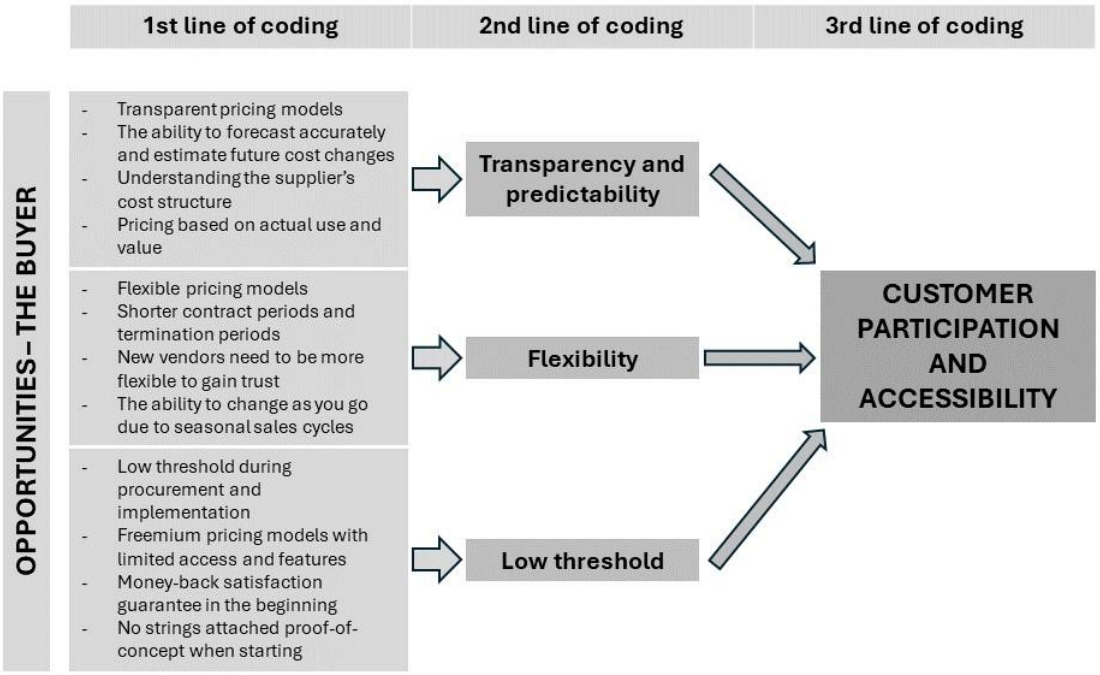

Figure 3 - Categorisation of the Buyers' Opportunities.

4.1.1 Customer participation and accessibility

4.1.1.1 Opportunity 1 – Transparency & predictability

The two most important factors, closely related to each other, affecting the buyers' view on pricing models and decision-making were transparency and predictability. Transparency helps the buyer understand the underlying costs affecting the price and the pricing model. Predictability, on the other hand, helps estimate possible future changes and increases regarding pricing and pricing models, making forecasting budgets easier. Examples of appealing transparent pricing models mentioned were transaction- and data-based pricing models, while user- or seat-based pricing models were seen as unattractive. Value-based pricing models taking a share of increased revenue also got negative feedback from one respondent. Accurately predicted forecasts on return on investment were also mentioned as desirable. The interviewees stated the following:

> The most important thing is transparency and the ability to forecast. (B3)

> The most successful procurements are those where the product or service lives up to the sales rep's promises and gives maximum return on investment. (B1)

> Now, I've seen a trend with more data- and transaction-based pricing models, and I think those are better, more transparent and easier to forecast. (B2)
>
> E.g. taking a percentage of the increased revenue stream feels unfair and unclear, it's better to be based on e.g. transactions or then a fixed price. (B1)
>
> I think the most important part here is predictability and how well you can forecast the impact. (B1)
>
> As a buyer, I'd like to see more transparency. So, if I could understand where the supplier's own costs come from, e.g., the volume is increasing, and they could transparently explain to me the mechanics behind their pricing, that would be great. (B3)
>
> The provider for our monitoring services changed their pricing from user- or seat-based to data-based pricing. So now we pay exactly for the amount we use. (B1)

4.1.1.2 Opportunity 2 – Flexibility

All interviewees also mentioned flexible pricing models as highly desirable, with short-term contracts being favoured over longer commitments. This was especially the case with new vendors who had not yet proven themselves, as well as smaller purchases, and one mentioned that one-third of all procurements go down the drain. The ability to change the extent of the service used was also crucial, considering that retail and e-commerce are highly seasonal industries. The interviewees stated the following regarding flexibility:

> Well, since we are a heavily growing company, and e-commerce is seasonal, too stiff and long-term pricing contracts are not optimal. For example, the fees depend on the number of users, and you will need to upgrade your tier to get more. you might not need so many users in two months, but then you cannot downgrade, which makes it difficult to forecast, e.g. costs in relation to the value. (B3)
>
> Definitely rather flexible pricing. I usually prefer short-term contracts with new vendors and smaller purchases. (B1)
>
> I prefer flexible pricing with short-term contracts any day. There are always lots of risks with new vendors; in my experience, a third of all procurements are a bad experience where the promised value is not delivered. (B2)
> I've noticed that there are more and more very small players on the market, solving just a small customer challenge, all while also just charging a small amount, and this offers more room to move around and try new things. (B3)
>
> Providers also need to become more flexible with the contract lengths. Trust goes both ways; If we trust them as a provider for a crucial part of our business, they should trust us as a loyal customer. (B2)

4.1.1.3 Opportunity 3 – Low Threshold

The third opportunity mentioned was a low threshold regarding the procurement and implementation of SaaS products. Three key suggestions or examples were given, the first one being the freemium pricing model, where a limited version of the service is offered free of charge. This way, the buyer can get a taste of the functionalities and decide

whether to invest more. The second one mentioned was a money-back satisfaction guarantee, and the third one was a proof-of-concept with no strings attached. The interviewees gave the following comments:

> We work with Shopify (one of the leading e-commerce platforms), and they have a great app store where you can easily try out new products for free without a long commitment. Freemium pricing has already been the case for consumers for a long time, but now it's also increasing in B2B. (B1)
>
> A satisfaction guarantee from providers. Like, you get your money back if the promised results are not reached. (B1)
>
> "Definitely more contract transparency, e.g. regarding renewals. I think the best models are the ones that start with a fixed-term contract, or e.g. a proof-of-concept, and then continue being valid until further notice. This lowers the threshold to try something new. (B1)

4.2 The Buyer – Obstacles

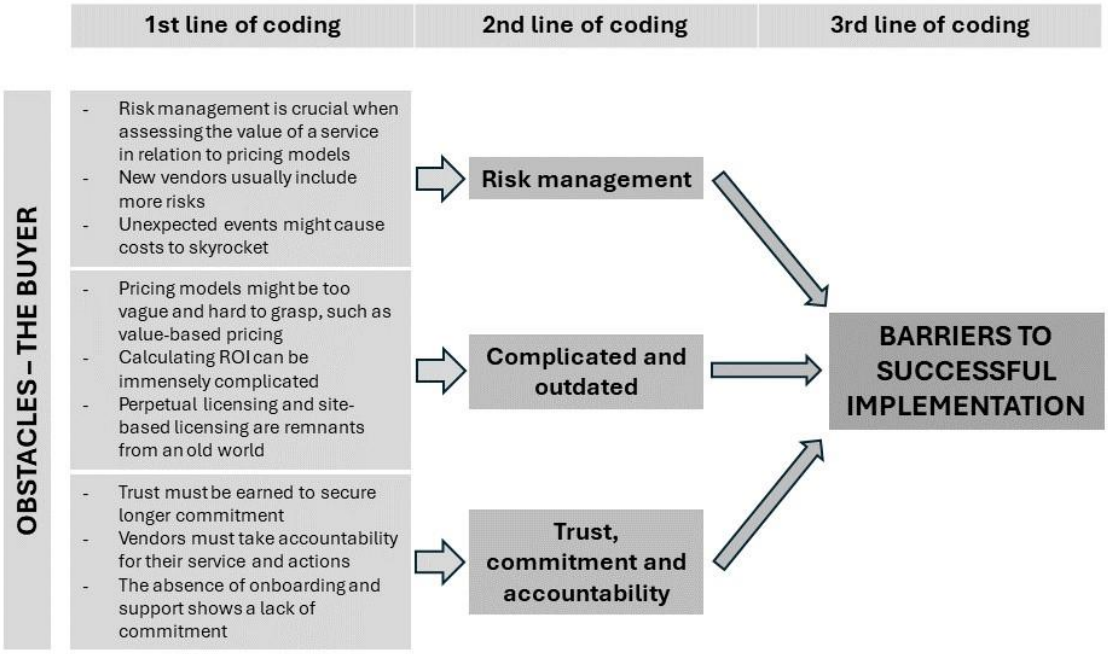

Figure 4 - Categorisation of the Buyers' Obstacles.

4.2.1 Barriers to successful implementation

4.2.1.1 Obstacle 1 – Risk management

When asked how they assess the value of the service in relation to pricing and pricing models, risk management was one topic mentioned. For example, risk is usually higher with new vendors, and costs can skyrocket if unexpected events are not considered. This

can especially be the case when the buyer doesn't have a full understanding of the pricing model, which in one case was a transaction-based pricing model. The interviewees stated the following:

> And obviously, you want to minimise the risk of unexpected costs. We had this one case with our SEO (Search Engine Optimization) provider where the cost suddenly skyrocketed, even though we were promised a significantly lower price initially. (B1)
>
> Well, transaction-based models can surprise you badly if you don't have a deep understanding of the subject. In one case, the cost increased tenfold due to a larger amount of data than what was forecasted. (B1)
>
> There are always lots of risks with new vendors. In my experience, a third of all procurements are a bad experience, where the promised value is not delivered. (B2)

4.2.1.2 Obstacle 2 - Complicated and outdated

When the interviewees were asked about pricing models they disliked, complicated and outdated pricing models were the common denominators. One interviewee mentioned disliking value-based pricing due to it being too vague and hard to grasp, and that calculating the ROI would be complicated. In addition, more traditional pricing models, such as perpetual licensing and site-based licensing, were considered outdated and disfavoured. The interviewees stated the following:

> In one case, I've considered switching to another vendor since I don't like their pricing model (user-based and complicated), but we haven't switched the provider, at least yet. (B2)
>
> I definitely dislike value-based pricing. I find it too vague to grasp and truly understand, and it's unclear if it will actually contribute to the promised value and what the cost would be. (B1)
>
> I dislike user-based or role-based pricing models; it should not matter how many have access to a software or who has certain admin credentials. (B2)
>
> Old perpetual licensing. Also, site-based licencing, where you pay for each location (e.g. store) or country you are active in. I don't think there's a place for this kind of pricing in the future, especially considering almost everything is online anyway. (B3)

4.2.1.3 Obstacle 3 – Lack of trust, commitment & accountability

Almost regardless of the pricing model in question, the lack of trust, commitment and accountability were seen as major obstacles when deciding on a new service or vendor. Vendors who provided rigorous onboarding and ongoing support as a part of their service and pricing model were widely favoured, and those who didn't take accountability for the

success of the service provided were frowned upon. It was mentioned several times that trust must be built for the buyer to be willing to commit e.g. a longer contract period. The interviewees stated the following:

> Promised value, such as increased revenue, easier decision making, easier to use for our employees, or technically more stable. Considering these, the price is not the most important factor. (B1)
>
> The most important factors for me are trustworthiness and commitment from the seller side. For example, the onboarding of the product or service is crucial because it's worthless if you don't implement it properly. (B2)
>
> When the trust has been built, or if it's a strategic or crucial part of our business, e.g. the e-commerce platform or a pricing solution for our products, it's better to commit long-term. (B1)
>
> The most important thing is the quality of the service and the product, as well as the customer service. (B2)
>
> One thing I would like to consider is what I call the "employee infuriation factor." Will this new tool or solution increase or decrease it? Because it cannot bring any value if no one is willing to implement it. (B1)
>
> In cases where you must argue with the sales representative about the perceived value of the product, while it is not directly related to a certain pricing model, it also does not paint a good picture of the seller. (B1)
>
> The supplier needs to take accountability and, to some extent, even guarantee a minimum level, as they know how their business, service and industry works. One way could be to start with a limited but larger proof-of-concept with a fixed price initially until the trust is built. (B1)

4.3 The Buyer - View on value-based pricing

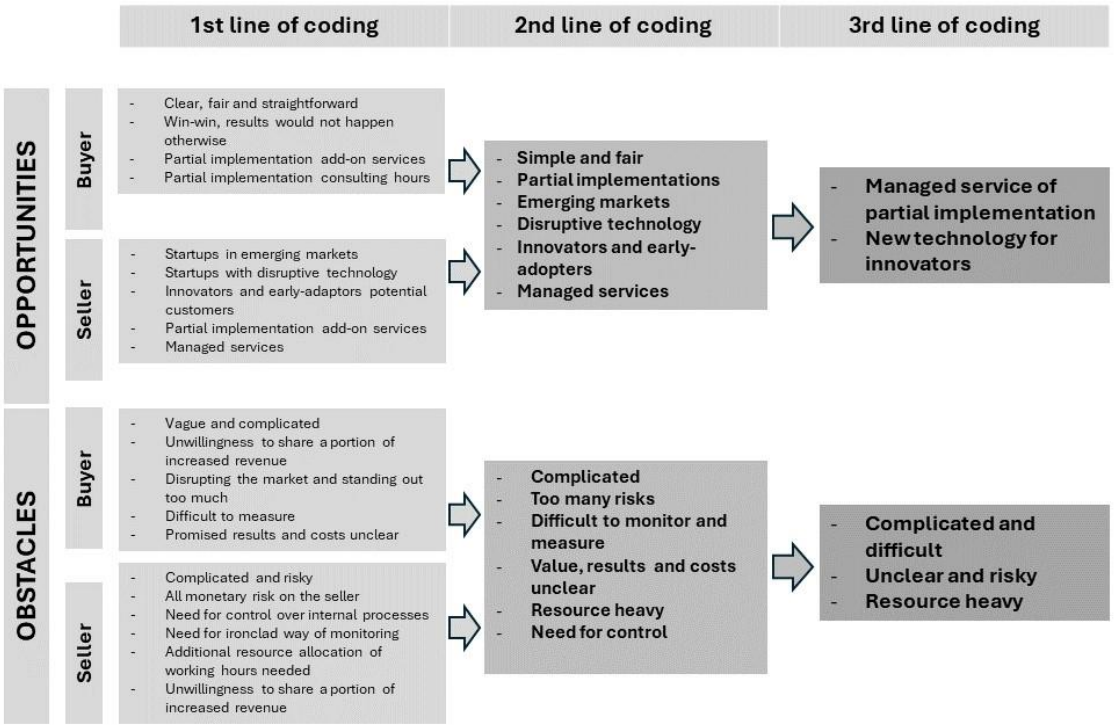

Figure 5 - Views on Value-based Pricing.

While one interviewee did, in fact, think that value-based pricing was clear, fair, and straightforward, the others felt more sceptical about it, as it was seen as vague and hard to understand. The unwillingness to share a portion of the increased revenue was also mentioned, as was the notion that going rogue with pricing models and trying to disrupt the market rarely is a recipe for success. Vendors were seen as better off using it as a marketing gimmick or in sales pitches rather than implementing it in full. A partial implementation regarding add-on services or consulting hours was seen as potential. The interviewees stated the following on value-based pricing:

> I definitely dislike value-based pricing. I find it too vague to grasp and truly understand, and it's unclear if it will actually contribute to the promised value and what the cost would be. (B1)
>
> I really like the pricing models that are based on the results the solution provides, so-called value-based pricing models. If someone, e.g. increases traffic to your website by 60% and then takes, e.g. 15% of the increased revenue, it's a win-win situation since that growth wouldn't have happened otherwise. (B2)
>
> Value-based pricing. An SEO consulting firm scanned our website and made a sales pitch, promising to increase website traffic. If they don't manage to increase it, it will not cost us anything, and if they reach a certain threshold, they will take a percentage of the

increased revenue. This was a really great experience. I would definitely like to see more value-based services out there. (B2)

In my experience, every sales representative and all companies use that as a marketing approach, but then the pricing is still quite traditional and not value-based or revenue share. But I understand it since it is very, very difficult to measure. So, nothing that comes to mind. However, I think that e.g. add-on services, account/customer success services, consultant hours, etc., could probably have some sort of value-based pricing. Or at least try it. (B3)

For example, taking a percentage of the increased revenue stream feels unfair and unclear; it's better to base it on transactions or a fixed price. (B1)

The vendor or seller still needs to look at the market and the competition and align their pricing to succeed; they cannot just go rogue. (B3)

4.4 The Seller – Opportunities

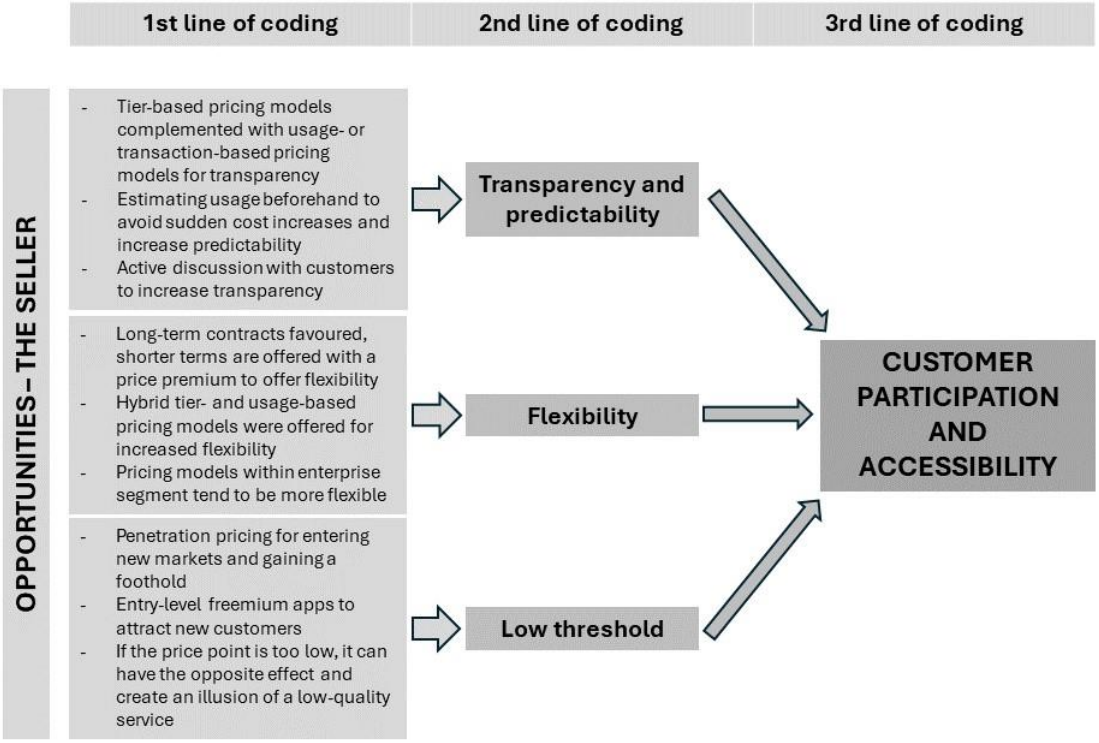

Figure 6 - Categorisation of the Sellers' Opportunities.

4.4.1 Customer participation and accessibility

4.4.1.1 Opportunity 1 – Transparency and predictability

The pricing models used by the interviewees could be described as tier-based, including basic usage and features, with each new tier including more advanced features. In addition, all interviewees offered some parts of their solutions with usage- or transaction-based pricing models. The reasoning behind these choices was customer feedback on

transparency and predictability, as they all aimed at becoming more transparent. A model where usage was estimated beforehand was also used to avoid sudden cost increases and increase predictability. The interviewees stated the following:

> We have a license fee per solution (a few different ones are offered), which includes a small amount of usage. On top of that, the additional usage is estimated in advance, which then determines what tier you end up in. The unit price then decreases the more you use it. This way, the customer can forecast the costs in advance. Transparency is the future. (S1)

> The advantage of estimating the usage beforehand is that the costs for the coming months are already locked in and, therefore, also forecastable. This has gotten a good response since the e-commerce sector is heavily dependent on seasonal sales cycles. (S3)

> We wanted our pricing models to be forecastable for the customer and easy to understand but still fair, considering the usage is quite cost-heavy. (S3)

> We are still undergoing a transformation with our pricing, which started a year ago. We used to have unit-based pricing, the unit being, e.g. a person or a product, but now we are moving more towards a hybrid solution, where the majority is included in the fixed base fees and tiers we provide but still allows you to buy or upgrade the number of units you need. This way, it's easier for the customer to know in advance what it'll cost, but also offers flexibility. (S2)

> We have also gotten feedback on transparency, so we are now aiming to become more transparent in our pricing. (S3)

4.4.1.2 Opportunity 2 – Flexibility

While vendors generally want to lock down longer contracts, e.g., one year or more, to secure a revenue stream, they do offer shorter contracts with a price premium. The interviewees also aimed to offer as much flexibility as possible with their combination of tier-based and usage-based pricing models. Flexibility also goes both ways, as too long contracts, e.g. with enterprise clients, can be too stiff regarding rising costs for the vendor. Pricing and pricing models towards enterprise customers also tend to be more flexible. Regarding flexibility, the interviewees had the following statements:

> But during my time at my current company, we've switched from a monthly to a yearly focus. That doesn't mean that we don't offer monthly contracts anymore, but our monthly contracts are 10% more expensive across the board. And I have always preferred to sell yearly contracts. I think that's quite the industry standard for who we sell to. But what we use, which I find works very, very well, is a three-month opt-out period. So, during the first three months, if you know you're not happy if something happens, you can opt-out, and you only pay for what you've used. (S3)

> The reason we moved away from usage-based towards a more complete solution and tiered pricing is that we wanted to differentiate ourselves from our competitors. As we provide a lot more value compared to our competitors, our pricing also needs to be differentiated. So now we enable a fairer and more favourable price comparison for

> partial solutions; this also offers more flexibility to our customers. In a way, we decided that instead of going head-on against our competitors and competing purely with price, we're disrupting the market by changing the rules. (S2)
>
> Now, we are moving more towards a hybrid solution, where the majority is included in the fixed base fees and tiers we provide but still allows you to buy or upgrade the amount of units you need. This way, it's easier for the customer to know in advance what it'll cost, but also offers flexibility. (S2)
>
> I have another type of experience where big enterprise companies want to have a contract for three years because they want to lock down the price for three years. That, on the other hand, is something that I might sometimes be a bit reluctant to do because. We might feel that increasing our pricing at some point would be quite good, so it might not be the best decision. (S3)
>
> The pricing models for enterprise sales need to have more flexibility, as they have bigger needs, regarding e.g. customisation, onboarding, and support. (S2)
>
> The enterprise segment is a good example of flexibility, as they have asked for a more tailored pricing model for their needs. (S3)

4.4.1.3 Opportunity 3 – Low-threshold

Penetration pricing was mentioned to enter new markets more easily and gain a foothold within the potential customer base. In the long run, however, it is safer to be in the middle of the price range. Another way to break through to new customers is through entry-level products offered as a freemium app. Interestingly, the threshold can also be too low, as some customers might not take one seriously enough or even see the service as low-quality if the pricing model allows the price level to drop too much below the market average. The interviewees gave the following comments:

> In the beginning, when starting or entering a market, it's better to be cheaper and use penetration pricing. Moving forward, it's usually safer to be in the middle, not the cheapest nor the most expensive. (S1)
>
> Our latest release was more of an entry-level product in the form of a freemium app. (S1)
>
> Interestingly, the threshold can also be too low. Customers have also said that we are too cheap, so we have started raising prices; if you are too cheap compared to your competition, the customer will not take you seriously. (S3)

4.5 The Seller – Obstacles

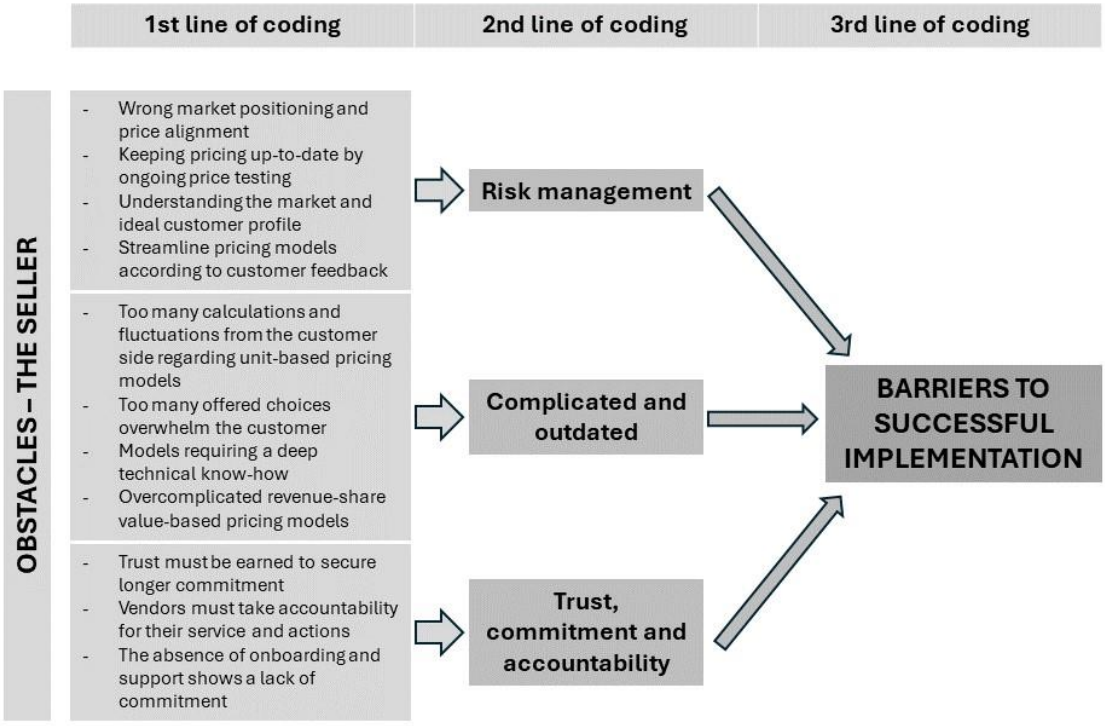

Figure 7 - Categorisation of the Sellers' Obstacles.

4.5.1 Barriers to successful implementation

4.5.1.1 Obstacle 1 – Risk management

Risks among vendors are mainly concerned with positioning on the market, both towards customers and against competitors. Standing out, at least too much, was seen as a too big risk, as the buyer side always compares with other vendors. Continuously testing, not necessarily revising the whole pricing model, was considered one way to counter this. Analysing and understanding the ICP (Ideal Customer Profile) also helps align the pricing in the right direction. All three interviewees had streamlined and updated their pricing and pricing models according to customer feedback to reduce risk. The interviewees stated the following:

> People work in a certain field and see many products with a certain price model. If the product is disruptive, then the pricing model can be as well, but nothing is more expensive than educating the public, and pricing differently than the competition, you risk losing potential future clients. (S1)

> We do quite regular A/B testing with our pricing and random samples here and there to ensure our pricing still holds. This way, we can potentially increase our revenue but also decrease the risk of our pricing or pricing model being off point. (S2)

> I would say that understanding your ICP (Ideal Customer Profile) is key; identify your key customers, know if you're competing in the enterprise market or towards the smaller customers, work with partners to understand competitors and listen to feedback from sales. This way, you can mitigate your risks and ensure your pricing and pricing models are competitive. (S3)

4.5.1.2 Obstacle 2 – Complicated and outdated

Unit-based pricing was mentioned as one pricing model that had been used before, but the vendor had since moved on due to negative feedback of it being too complicated, e.g., too much needed to be calculated by the customer to estimate total costs. Another one used to provide everything as a pick-and-choose solution but has since streamlined the offering due to the overwhelming number of choices the customer had to make. Some usage- or transaction-based pricing models that are used without reason also got negative feedback; they might sometimes require a deeper technical understanding than others, and revenue-share value-based pricing models were seen as overcomplicated. Listening to customer feedback and one's sales representatives were mentioned as ways to counter overcomplicated pricing models. The interviewees stated the following:

> We used to have everything as single add-ons, where you could choose exactly what you wanted and only pay for that. We've gained a lot of experience through customer feedback over the past years. The pricing wasn't transparent enough, and customers got confused, so now everything is tiered, which has gotten great customer response and increased the stickiness. (S1)

> Listen to customer feedback. Also, listen to your sales representatives; they often get a lot of feedback from what others (competition) are doing. And keep it simple, we used an iterative process where we started with a lot and then started stripping it down. (S3)

> We used to have unit-based pricing, the unit being, e.g. a person or a product, but started moving away from it about a year ago due to feedback and customer discussions. (S2)

> I also have difficulty understanding some transaction- or use-based pricing models when there is no logical reason for it. If increased usage increases costs, e.g. SMS, then of course, but if it's just a made-up reason, then I don't get it. (S1)

> Revenue-share value-based pricing models and other overcomplicated pricing models should be avoided. I also don't like transaction-based pricing, where you e.g. pay for how many gigabytes you use. I understand that you can like that model if you are very technical yourself, but not everyone is an IT engineer within e-commerce. (S3)

4.5.1.3 Obstacle 3 – Trust, commitment and accountability

Commitment must be made to build trust. Key to this is an open and ongoing discussion and handling of customer feedback, as well as a deep understanding of the customer's business, processes, and bottlenecks. However, it was also mentioned that the customer himself must commit to using the service to get the results they desire and that the biggest

threat is when the customer is not dedicated enough. Luckily, the services provided (and SaaS in general) are easily monitored when it comes to usage and provide a lot of statistics. This, in turn, can work as a guideline where the customer might need more support, e.g. if a certain feature is being underutilised. Heavy usage also correlated with happier customers. The interviewees stated the following:

> Listen to customer feedback. Also, listen to your sales representatives; they often get a lot of feedback from what others (competition) are doing. And keep it simple, we used an iterative process where we started with a lot and then started stripping it down. (S3)
>
> In our field, it's really easy to get a lot of statistics on how much the customer uses our platform and how much money (e.g. ad spending) goes through our platform, so we monitor it closely. The usage also correlates with satisfaction and the likelihood that the customer will stick with us. So, if usage drops, we can react by offering more support. We recently increased our price due to good results (and heavy usage). (S1)
>
> As mentioned, it's important to understand the customer's business, their processes and their bottlenecks. When you understand this, it's a lot easier to explain the value of the solution, the monetary value, and the ROI. (S2)
>
> If the customer does what they are supposed to do (with our platform), they get the results we promise. The biggest threat is if the customer is not dedicated enough. (S1)

4.6 The Seller - View on value-based pricing

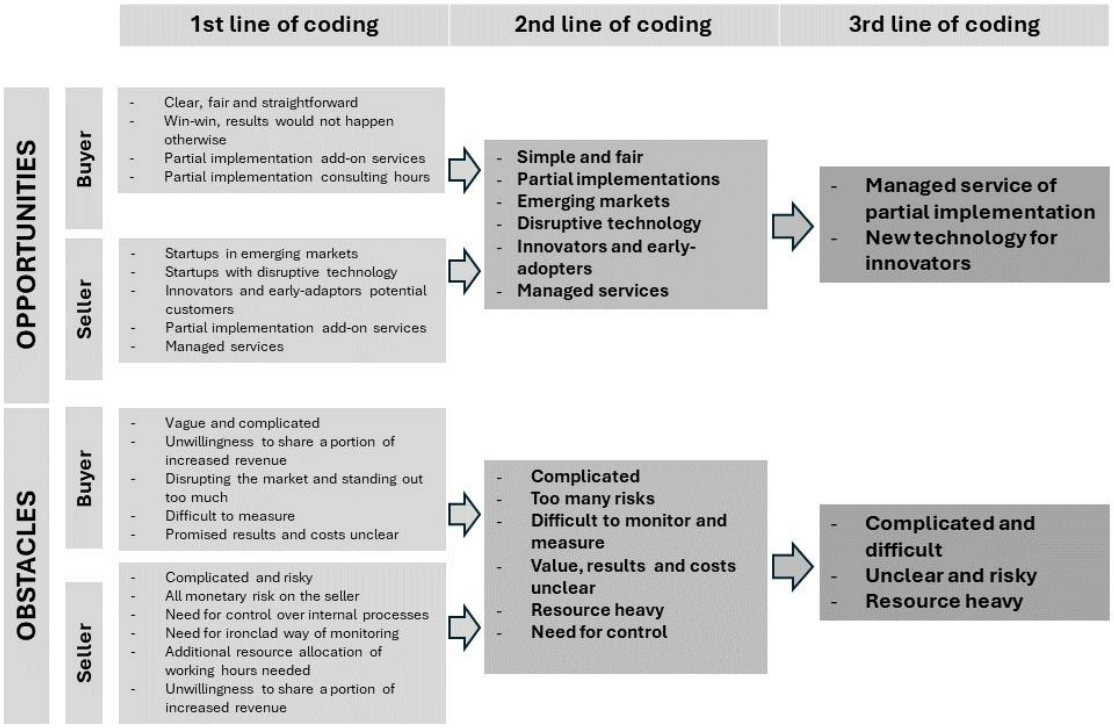

Figure 8 - Views on Value-based Pricing.

None of the interviewees in question had personally tried value-based pricing models, but one of the companies represented was currently running a small pilot on the subject. In general, it received harsh feedback and was considered complicated and risky. The main reasons for this were that the supplier would need to take all the monetary risks without any guarantee of getting paid and the need for a lot of control over the internal processes of the customer to monitor it and ensure the service provided was being used as intended. This meant that in addition to initially offering the service for "free", working hours would need to be allocated in advance to secure good results. Managed services, which are offered as an add-on to the actual service, were seen as a potential object for value-based pricing. It was also mentioned that customers rarely are willing to share a part of their revenue growth and usually want to know exactly how much something will cost in advance. Looking into the future, some opportunities were seen regarding value-based pricing, especially for new SaaS Startups in emerging markets or with disruptive technologies. Innovators and early adopters were mentioned as potential target groups for value-based pricing. The interviewees stated the following on value-based pricing:

> We haven't tried value-based pricing. I think there's a big risk for the provider, as you would have to take all the costs without a guaranteed revenue stream. Also, the monitoring part can be difficult. However, I'm not completely saying no to value-based pricing, where, for example, we would take a share of the increased revenue. One way could be to price a part of the solution or an add-on with a value-based pricing model. (S1)

> We, or I, haven't tried value-based pricing, but I don't necessarily see it as a harder pricing model to argue for than others; you just must frame it differently. We would need to have a certain amount of control over the customer's operations, so if we would offer managed services, it could work. (S2)

> I absolutely hate it, and the customers hate it. I've talked a lot about it with customers and I've just heard bad experiences. The two main reasons for this are that we win our customers over with predictability, and the customers don't want to give away a share of their revenue or profits. They want to know exactly how much they should pay. However, we are now trying it with one new solution, and the reason for this is that we didn't know what price model to implement. (S3)

> You would also need to have an ironclad way of tracking the results, or else you'll just end up in an endless argument with the customer. (S3)

> I think it could work for new emerging and disruptive technologies and companies. Early adopters are more open to taking risks anyway. However, then it must be completely value-based and not include any other costs or pricing models. (S3)

5 Discussion

This chapter will discuss the findings of the empirical study and assess the alignment between expert statements from interviews and previous studies. The broad theme for opportunities was identified as customer participation and accessibility, and the broad theme for obstacles was identified as barriers to successful implementation.

As a recap, my research questions are as follows:

- What are the main opportunities and obstacles that the buyers and sellers face with different pricing models for SaaS solutions?
- Are value-based pricing models attractive both for sellers and buyers alike?

5.1 The Buyer and the Seller – Opportunities

The broad theme considered opportunities for both the buyers and the sellers was customer participation and accessibility, which is discussed in more detail in this chapter. Customer participation and accessibility include transparency and predictability, flexibility, and a low threshold. I will discuss the findings from both sides together to find similarities and contrasts between the two interviewed groups.

5.1.1 Customer participation and accessibility

Transparency and predictability were the two key factors affecting the buyers' decisions regarding pricing models and procurements, as transparency helps in understanding the underlying cost structure, and predictability helps in estimating future costs. According to the experts interviewed, the most common pricing models on the market are tiered pricing models combined with user- or seat-based pricing models and usage- or transaction-based pricing models, which resonates with the findings of Poyar's (2021) survey as well as Li and Kumar's article (2022). This seems to be quite the norm within e-commerce, as everything is heavily dependent on website traffic and seasonal sales, and buyers generally tend to favour transaction-based pricing models in combination with more streamlined tier-based pricing models.

The reason behind the pricing models used by the sellers seemed to be customer feedback, as all three sellers interviewed had, or were in the process of, revising their pricing models

in accordance with the feedback they had gotten from their customers, which correlates with the comments of the buyers. All three sellers also seemed to focus quite a lot on transparency and predictability and aimed at estimating the total costs a year in advance. However, due to the almost infinite number of combinations and micro factors affecting the pricing, a lot of differentiation occurs between vendors, especially when looking at enterprise solutions. Kienzler and Kowalkowski (2017) addressed the need for further research on customer participative pricing.

In addition to listening to one's customers, listening to one's sales representatives is as important as they can often, e.g. hearing about competitors' pricing from the customers. The feedback also resulted in more simplified pricing models being adopted by the interviewed sellers. It can, therefore, be concluded that continuous development and evolvement, as seen in the survey by Poyar (2021) as well as the report by Simon-Kucher & Partners (2024), of one pricing practices, together with an open and ongoing discussion with one's customers, is recommended going forward.

Another key opportunity mentioned by both sides was flexibility, where the buyer side favoured short-term contract lengths over long-term contract lengths. Considering the seasonality of the e-commerce and retail industry, the flexibility to change the extent of the service on the go was also deemed attractive. However, while short-term contracts were favoured with newer suppliers, once the trust has been secured, as well as with strategic procurements, longer-term contracts were favoured. This is supported by Xiao et al. (2020). The seller side, on the other hand, favoured longer-term contracts to secure revenue streams, but all interviewed sellers identified the need for flexibility and offered shorter contracts with price premiums towards the buyers. It is worth noticing that contracts that are too long can also have a negative impact from the seller's point of view. As the seller side recognised the need for flexibility among their customers, all had revised their pricing models to better consider flexibility. It can also be interpreted from the results of the interviews regarding flexibility that some middle ground needs to be found, and moving forward, an open and honest discussion among the parties involved seems to be the right approach.

The third key opportunity discovered within customer participation and accessibility focused on offering a low threshold for the buyer to gain a foothold and give a taste of

the service. This is supported by Li and Kumar (2022) and Xiao et al. (2020), underlining the importance of low-threshold initial product adaptations and outstanding customer success before deepening the relationship to a more strategic level. Penetration pricing was mentioned as one tactic used to enter new markets when starting a new business, which is also supported by Noble & Gruca (1999). Both sides also mentioned a freemium pricing model for partial solutions as an attractive low-threshold option when trying new services. Some sort of limited proof-of-concept with fixed costs or a satisfaction guarantee provided by the sellers was also seen as appealing by the buyer and was also offered in many cases by the sellers. This is also in line with Xiao et al. (2020). It is important to remember, though, that although freemium pricing models are clearly trending, according to the interviews, they alone are not enough to lower the threshold for buyers, and other actions, such as satisfaction guarantees, must also be implemented for further success.

5.2 The Buyer and the Seller – Obstacles

The broad theme considered obstacles for both the buyers and the sellers were barriers to successful implementation, which is discussed in more detail in this chapter. Barriers to successful implementation include risk management, complicated and outdated pricing models, and trust, commitment and accountability. I will discuss the findings from both sides together to find similarities and contrasts between the two interviewed groups.

5.2.1 Barriers to successful implementation

Risk management was mentioned as an important factor when assessing the value of the service provided in relation to pricing and pricing models. The buyer side generally saw greater risks with new vendors or services and considered costs due to unexpected events a real and occurring threat. It must also be noted that since the interviewed buyers' incentive programs weren't discussed, they might be rewarded for reasons unknown to the researcher and, therefore, influence decision-making choices by avoiding certain risks, as supported by Kerr (1975) and Burton et al. (2015). They argued that the seller should know both their own business and industry and understand the customer's situation and, therefore, take more responsibility and share the risk in the beginning. As data collection and usage analytics are easy for SaaS companies and, therefore, also closely monitored, the seller should be able to show proof of previous successful

implementations confidently; this is also supported by Li and Kumar (2022). Risks on the seller side are mainly concerned with positioning on the market, where standing out too much, either due to the pricing being too low or too high or the pricing model being too different, could easily lead to lost sales opportunities. As risks are seen and weighted by both sides, it can be argued that aiming for a fair distribution of the risks by understanding the concerns of the other party involved is something to strive for.

Understanding one's Ideal Customer Profile is key and should lay the foundation for choosing pricing strategies and models to mitigate risks. While actively revising one's pricing keeps it up-to-date and competitive, it is important to note that while analysing current pricing practices and making small adjustments is generally considered advantageous, continuously changing pricing practices can be disruptive for the sales team. This is also supported by Poyar (2022).

Complicated and outdated pricing models also seemed far too common, based on the interviews. All interviewed buyers had extensive experience with pricing models that either didn't fit the service provided, e.g. seat-based pricing where usage-based pricing would be more logical, were remnants of an old world, e.g. site- or location-based pricing in an online world, or were too complicated to understand, e.g. value-based pricing. All sellers interviewed had also had, at some point, a pricing model too complicated for their customers but had luckily listened to customer feedback and shifted towards a more streamlined and simple approach. However, while all interviewees had listened to customer feedback, updated their pricing models accordingly, and agreed that a more systematic approach was needed, none of them seemed to have adopted a process or framework for it (Xiao et al., 2020). Could a process or framework be created and implemented where the seller meets the customer, e.g. on a quarterly basis, and openly discusses current pricing practices and models to increase understanding and pricing competitiveness?

Lack of trust, commitment, and accountability were seen as major obstacles when deciding on a new service or vendor. The key actions the seller can take to influence these in a favourable way are to provide extensive onboarding and continuous support. Initially, the seller should aim to communicate clearly the potential value of the service and predictable return-on-investment calculations. A successful onboarding was mentioned

several times in the interviews from both sides as crucial, and cases where the seller failed to implement the service and train the users most often resulted in lower usage, worse results, and, ultimately, churn, as supported by Xiao et al. (2020). However, trust and commitment go both ways and to achieve the promised results, the customer must also commit to using the service as intended. While extensive onboarding is crucial for a successful implementation, sellers giving support should aim at educating and participating with the customer on the issue rather than just solving the issue at hand. In this example, a process evolving around respond – identify – act – educate could perhaps be implemented?

5.3 The Buyer and the Seller – Views on Value-based Pricing

In general, value-based pricing received harsh feedback and was considered complicated and risky. Value-based pricing was also not a common practice, and the SaaS providers felt that it would involve risks they were not willing to take. These risks included unpredictable income streams and the inability to monitor baseline data and track the actual contributed value and results, in accordance with Töytäri et al. (2015), all while much of the success the service would provide would be on the seller's responsibility. As implementing a value-based pricing model would also require additional investments in human resources, processes and legal-technical matters from the seller side, the model did not seem attractive enough. There was also an unwillingness to give away or share a portion of the potential increased revenue among the buyers should the service succeed. The uncertain total costs also raised resistance, in addition to the lack of control and influence of the customer's organisation and processes (Liinamaa et al., 2016., Reen et al., 2016). However, when communicating clearly and sharing the results with the customers, all while offering managed services, there might be a recipe for success in open communication, as experienced in one case by one of the buyers.

Value-based pricing models might still succeed in the future, especially in emerging markets and among disruptive technologies, considering that innovators and early adaptors tend to be more open to new and innovative approaches. Considering that young start-ups generally put more time and effort into their earliest customers to improve their service or product through open dialogue, maybe this could go hand in hand with the required managed service aspect?

6 Conclusion

6.1 Summary of Key Findings

This study aimed to examine the opportunities and obstacles of different pricing models for early-stage SaaS companies, where special focus was given to modern value-based pricing models and the main reasons for transitioning to or not to value-based pricing models. The study examined the views of both the sellers and the buyers of SaaS within e-commerce and retail. The main opportunities found could be themed around customer participation and accessibility, where key topics included transparency and predictability, flexibility and a low threshold regarding pricing models. The main obstacles found could be themed around barriers to successful implementation, where key topics included risk management, complicated and outdated pricing models and trust, commitment and accountability. Views on value-based pricing models were generally negative, as value-based pricing was considered complicated, risky and resource-heavy. Opportunities regarding value-based pricing included a managed service of partial implementation, as well as possibilities with new technologies aimed at innovators and early adopters. The most common pricing models this study uses are presented in a matrix below (see figure 9.). The matrix was created to help the reader more easily comprehend how the different pricing models relate to each other. It is worth noticing that the matrix below is purely based on the discussions during the interviews and the researcher's own interpretation, giving some visualisation to an otherwise complex subject. Note that pricing models B and D were generally preferred.

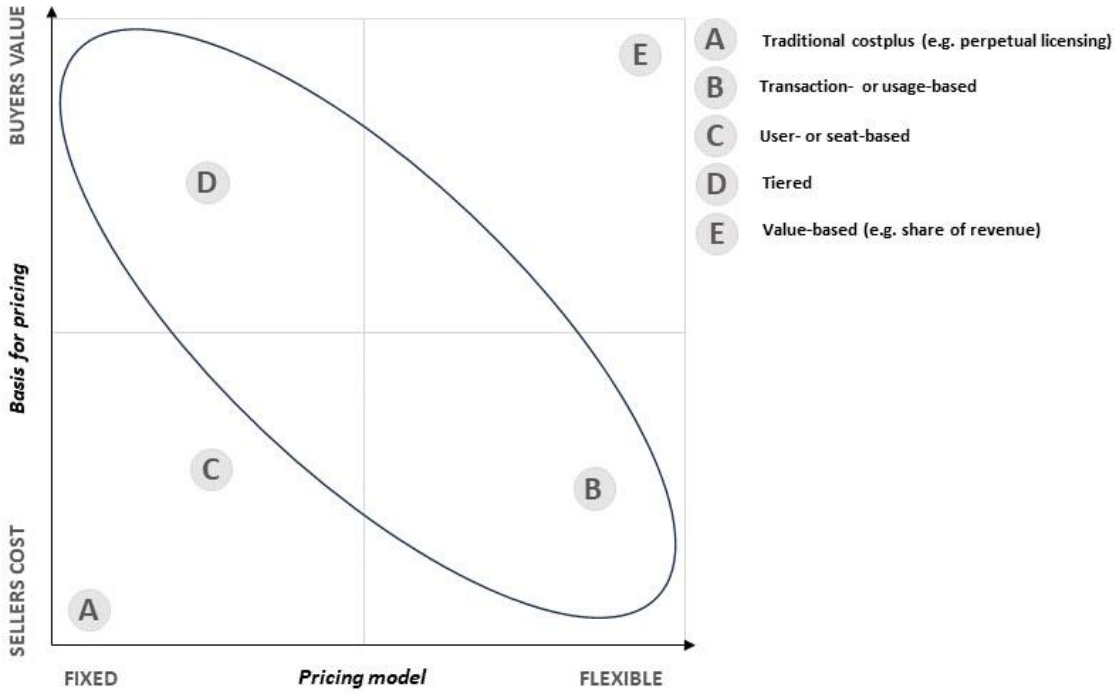

Figure 9 - Most common pricing models visualised.

6.2 Implications for SaaS companies in retail and e-commerce

Customer participation and accessibility are key for any company aiming to succeed in the field. Transparency and predictability are needed for the buyer to understand the underlying costs of the seller as well as estimating own future costs and flexibility and options must also be offered regarding contract lengths and terms, especially considering the seasonality within e-commerce and retail. Hybrid pricing model solutions, combining, e.g. tiered pricing models with usage- or transaction-based pricing models, are preferred as they enable the above. Sellers can also seek to lower the threshold for buyers by combining freemium apps with satisfaction guarantees and limited proof-of-concept. Generally, the seller should always strive to maintain an open discussion and continuous evaluations of customer feedback.

Regarding obstacles and barriers to successful implementations, the buyer's concerns regarding risks must be heard and addressed. The seller needs a deep understanding of the industry and business they are in and is prepared to carry more risk in the beginning, as feedback from failed implementations is valuable as well. As data collection within SaaS is easy, previous successes should be used to ensure predictable ROI. By implementing a process or framework for ongoing analysis of customer feedback, the

seller can avoid having too complicated or outdated pricing models. While small adjustments in pricing practices are recommended, one should refrain from bigger continuous changes as this disrupts sales. Extra focus should also be given to onboarding practices, as a successful implementation will earn much-needed trust. However, customer commitment is also needed and can be encouraged through support revolving around educating the customer instead of purely problem-solving.

Regarding value-based pricing, combining clear communication from the start and ongoing sharing of results with managed services will increase the chances of success. SaaS startups within emerging markets or with disruptive technologies can also experiment with value-based pricing towards innovators and early adopters. However, for the vast majority, value-based pricing is still too complicated, risky and resource-heavy.

6.3 Limitations

Pricing is a very broad and complex subject, and it was impossible to include all aspects of pricing and pricing models in one research. As this was limited to SaaS within e-commerce and retail, the findings might not be comparable and applicable to companies within other industries. The interview questions also focused heavily on the pricing aspects while setting aside the company’s goals, such as profit maximisation, and the respondents' personal goals and incentives. While this ensured enough discussion around pricing, it might have overlooked other crucial information.

6.4 Recommendations for future research

Based on the findings and takeaways of this study, three research opportunities can be identified: RO1: Considering that penetration pricing could combine well with new start-ups in emerging markets with disruptive products and experimental pricing models, it could lay a foundation for future pricing models. RO2: A quantitative study verifying the opportunities and obstacles found in this study. This could, for example, cover an analysis of pricing models available online on the websites of SaaS companies and compare different pricing models and offerings with official financial reports and the profitability of these companies. RO3: As this study had a very narrow approach due to several limitations, a cross-industry study examining SaaS pricing on a more general level could broaden the understanding of pricing within SaaS. In conclusion, a final recommendation

on including both the buyers and the sellers in future studies must be underlined, as this enables a deeper understanding and a broader view of an otherwise complex subject.

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Appendices

Appendix 1. Call script and qualifying questions

Hi,

This is Richard Sundman, and I'm conducting my MBA thesis on SaaS pricing. I'm calling to ask you if you would be willing to participate in an interview with me regarding your role as a buyer/seller of SaaS solutions. The interview would be held online, recorded, and auto transcribed. Would this be okay for you? The thesis will be in English, but we can do the actual interview in either Finnish or English, whichever you prefer or feel more comfortable with.

Before setting a date, I have a few qualifying questions. Are you currently in charge of making buying/pricing decisions? Are you in charge of making these decisions regarding SaaS? How much experience do you have regarding buying/pricing SaaS?

Would xx.04.2024 at xx:00 be okay for you?

Great. I will send the calendar invite with a link to the meeting and the questions for you to look over beforehand.

Talk to you soon, bye!

Appendix 2. Interview guide

The Buyer

What are your current roles and responsibilities?

What is your experience as a buyer? How many years and decisions?

1 fully disagree, 4 fully agree.

1. **Current Experience and Preferences:**

Q1 I find it easy to compare different pricing models when making a buying decision. 1-4

1. What pricing models are you currently most familiar with or have experience using?
2. Can you describe a recent purchasing decision you made and the pricing model that influenced your choice?
3. Are there any specific pricing models you prefer or dislike? Why?

2. **Perceived Value:**

Q2 I find it easy to compare different values (the value the product/service brings) when buying. 1-4

1. How do you assess the value of a product or service when considering its price?
2. What factors influence your perception of value when evaluating different pricing models?
3. Are there any pricing models that you believe offer better value for your money?

3. **Behavioral Patterns and Decision-Making Process:**

Q3 At the start of the buying process, the needs and goals are clear. 1-4
Q4 Price is the key criteria behind my decision making? (e.g. compared to features or quality) 1-4

1. Do you tend to gravitate towards products/services with fixed prices or those with variable pricing?
2. Long term with a lower price or short term with a higher price?
3. Have you ever switched to a different product or service because of its pricing model? If so, why?
4. How much does price influence your decision compared to other factors like quality, features, or brand reputation?
5. How much time do you use to consult with others or conduct research before making purchasing decisions?

4. **Satisfaction and Feedback:**

6. Can you recall a positive experience you've had with a particular pricing model? What made it successful?
7. Have you ever encountered any challenges or frustrations with a pricing model? If so, what were they?
8. What improvements or changes would you suggest to pricing models to better meet your needs or preferences?
9. Are there any specific examples of companies that have succeeded in value-based pricing?

5. **Future Expectations:**

1. Are there any emerging pricing models or trends that you find intriguing or would like to explore in the future?
2. Are there any current pricing models you hope to say goodbye to?
3. How do you anticipate your preferences or behaviours regarding pricing models might change in the future?
4. Are there specific features or aspects you would like to see incorporated into pricing models to better align with your needs or values?

The Seller

What are your current roles and responsibilities?

What is your experience in sales and pricing? How many years and decisions?

1 fully disagree, 4 fully agree.

1. Understanding the Current Approach:

Q1 It is easy to understand and choose between different pricing models. 1-4

1. Can you describe the current pricing models used for your SaaS products/services?
2. How did you arrive at the current pricing models, and what factors were considered?
3. Can you describe the process involved in determining pricing for new SaaS offerings?

2. Market and Competitive Analysis:

Q2 It is better to follow the industry norm/competitors when choosing a pricing model rather than trying something different. 1-4

1. How do you assess market demand and competitive landscape when establishing pricing?
2. What methods or tools do you use to analyse competitor pricing strategies? What are the key factors you look at?
3. How do you differentiate your pricing from competitors while remaining competitive in the market?
4. Can you share any initiatives or experiments aimed at optimising pricing strategies and models for better results?

3. Customer Insights:

5. What feedback or insights do you gather from customers regarding pricing?
6. How do you tailor pricing strategies or models to meet the needs and expectations of different customer segments?
7. Can you share any examples of how customer feedback has led to changes in pricing models or strategies?

4. Value Proposition and Positioning:

Q3 The optimal price point to value prop is unique for every company/product, and "guessing" the starting point and then continuous A/B testing is, therefore, the best way to go, rather than a more scientific/statistical approach. 1-4

1. How do you ensure that your pricing reflects the value proposition of your SaaS products/services?
2. How do you communicate the value of your offerings to potential customers during the sales process?
3. Can you give some examples where the value and the price have not aligned?

5. Value based pricing:

Q4 Value-based price models are harder to argue for or justify than other price models. 1-4

1. Have you tried value-based pricing?
2. What was the outcome?
3. What were the objections/threshold not to?
4. What would make you implement a pure value-based pricing model?
5. How do you track and evaluate the effectiveness of your current pricing models?

6. Future Expectations:

1. Are there any emerging pricing models or trends that you find intriguing or would like to explore in the future?
2. Are there any current pricing models/practices you hope to say goodbye to?