

Value Creation Plan: Pricing Diagnostic

*for PE and Aggregators' SaaS and
Tech-Enabled Services PortCos*





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- **Overview and Background**
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 - Opportunity Discovery
 - Overview
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This diagnostic helps deal teams and operating teams identify opportunities to improve pricing throughout a pricing project...

Hypothesis Development

Pricing-related Challenges to Solve...

- Churn is high
- Product/market fit gap
- Pricing isn't optimized

Opportunity Discovery

Questions to Ask or Analyses to Run...

- Offerings bundled correctly?
- Customer segments accurate?
- Comp plan aligned?

Execution

Actions to Take...

- Identify risks
- Socialize opportunity
- Manage change

Pricing and Go to Market Background



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Interim GM and Operating Exec, ArchView

Interim GM and strategy consultant at the intersection of market research, growth, and product

GM/COO, Phrase Health

Led functions including sales, growth marketing, strategy, finance, and operations

Business Fellow, MEST (Venture Studio)

Advised entrepreneurs on pricing, product strategy, etc.

Strategy Consultant, Accenture

Samples projects include new product and market innovation; customer experience use case valuation; customer data use case valuation

The Wharton School, UPenn, *MBA*, Finance; Innovation Management

Northwestern University, *BS*, Economics; Learning & Org Change

Highlights

Experience

- 2x GM and Interim GM for SaaS and tech enabled services
- Selling and marketing software and services, cross industry
- GTM and product strategy focusing on aggregators and PE PortCos

Selected Pricing Projects

- As B2B SaaS GM at Phrase, led two primary pricing projects
 - Usage-based pricing model experiment with sales/CS
 - ACV increased by 26% from recurring pricing increase
- Pricing + packaging strategy for PE-backed B2B SaaS (est. 8% lift)
 - Refined customer segments
 - Developed churn propensity model to forecast impact
 - Crafted new bundles and pricing model
- Diagnostic + Implementation for PE SaaS/services (est. 10% lift)
 - Benchmarked pricing performance
 - Created new offerings and optimized pricing levels
 - Implemented pricing changes



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Exec Summary: Where to Begin?

Ask these top seven pricing questions/analyses to management or an operating partner to begin to understand the opportunity for pricing

Management and Board	<ul style="list-style-type: none">• Prior pricing projects and results
Sales	<ul style="list-style-type: none">• CRM exports of win rates, sales' prices, etc.• CRM notes from lost deals
Customer Success / Account Management	<ul style="list-style-type: none">• Churned customers with CS/AM notes
Product	<ul style="list-style-type: none">• Adoption by product, feature, and integration
Rev Ops / Finance	<ul style="list-style-type: none">• Profitability per product
GTM / Marketing	<ul style="list-style-type: none">• Customer segmentation overview



Contents

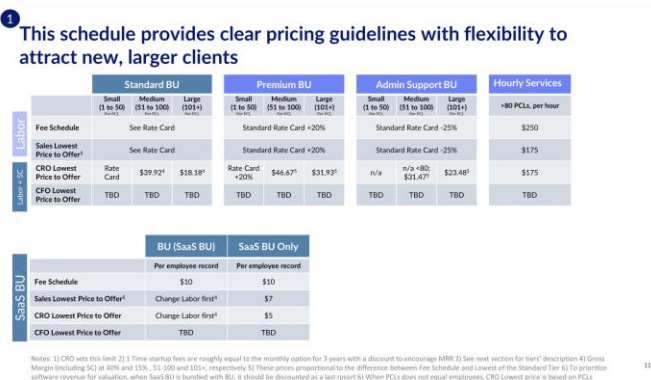
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Hypothesis Development: Case Studies

Other companies' learnings help identify potential hypotheses to explore

Security PE Backed SaaS and Tech Enabled Services¹

Empowering sellers with negotiation ranges addressed a downward trend in lost enterprise deals

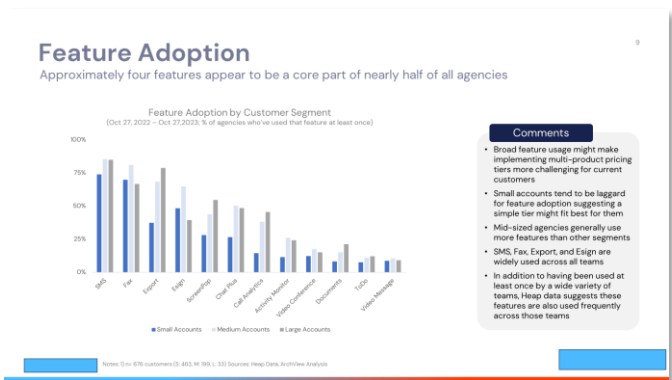


Providing more freedom to sellers leads to

+10% ARR

InsureTech PE Backed SaaS¹

A company's customers with the highest spend were least likely to adopt new features preferring simpler pricing bundles

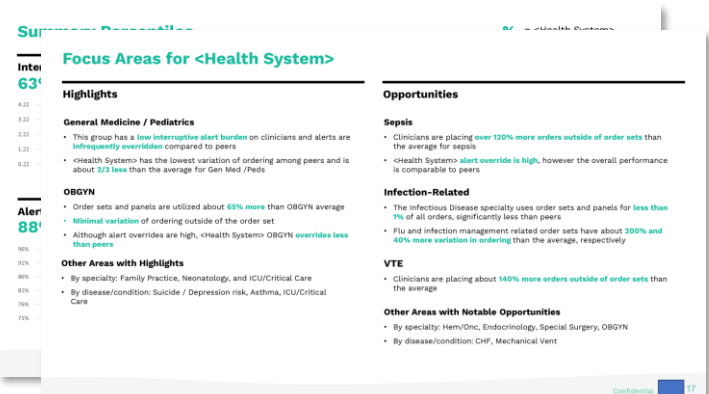


Refining understanding of customer differentiation leads to

+8% ARR

HealthTech VC Backed SaaS

Decreasing price and offering new functionality for free increased pipeline and revenue

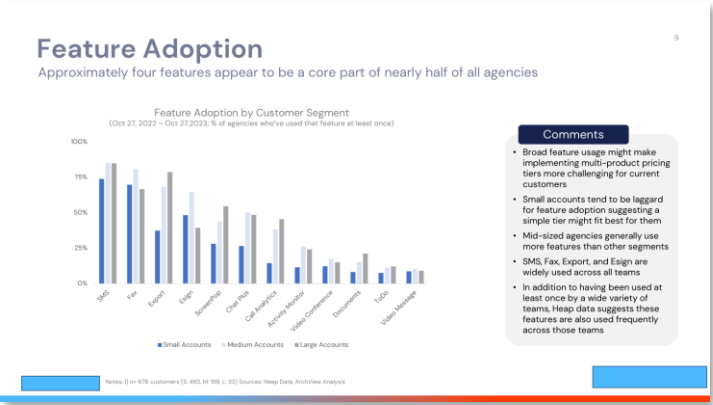


Aligning company and customer interests
through pricing leads to

+16% ARR

Pricing and Packaging Strategy

Optimized pricing by understanding customer segments, product usage, and offerings to compile a cohesive set of pricing packages



Post-Sale: Customer Interviews

Post-sale interviews with customers align with pre-sale sentiments

	Observations	Quotes	Comments
Small	<ul style="list-style-type: none">All-in-one bundle important for value propCore usage focused on phone text, and esignImportance of having thing all in one place mentioned, all in one screenIntegrations with AMS importantCost-cutting is an important consideration	<ul style="list-style-type: none">"This is exactly what I had envisioned for the independent agency, everything in one place.""I like that I can do my calls, text and fax from one system. I like that it is well integrated with my AMS so I don't have to switch screens all the time."	<ul style="list-style-type: none">There isn't enough data to discern meaningful differences between client segments; this data largely supports customer win/loss analysisCustomers have a perception that they use most features
Medium	<ul style="list-style-type: none">All-in-one bundle important for value propCore usage focused on phone text, and esignWilling to pay for best-of-breed	<ul style="list-style-type: none">"Replaced our phone and fax machine""Client provides the ability to manage everything in one place – text messaging, faxing, documents for e-signature."	<ul style="list-style-type: none">Expectations and satisfaction generally align across segments based on these customer interviewsBroad mentions of price and interest in phone highlight significant possibility of churn based on new model
Large	<ul style="list-style-type: none">All-in-one bundle important for value propCore usage focused on phone text, and call analyticsIntegrations with AMS importantCost-cutting is an important considerationWilling to pay for best-of-breedManagement has need for analytics	<ul style="list-style-type: none">"No one else offer the ability to do everything in one place.""It was also a cost saving, just for the phone alone, we were paying more per user than we are now."	

Notes: 1) n=38 interviews (2 due diligence in 2021, 12 in 2022) Sources: Customer Call Transcript Summaries 2021 to 2022 Customer Visits Notes, ArchView Analytics

Approach Overview

There are three options that may best align with CLIENT's assumptions and preferences for growth

	1) Feature Bundles	2) Metering	3) Net New Growth
Summary	Identify tiers of products that match segments' needs best	Identify highly used features that will drive upgrades based on use thresholds.	Delay pricing tiers, focus on innovation and finding new areas of MRR, especially with high MRR/deal agencies
Upside / Risk	Upside: Moderate Innovation Risk: Very Low Churn Risk: Low	Upside: Varies with Churn Innovation Risk: Very Low Churn Risk: Varies with Upside	Upside: Varies High Innovation Risk: High Churn Risk: Very Low
Pros	<ul style="list-style-type: none">Opportunity for upside (especially for smaller customers)Align CLIENT offering with value driven to customers	<ul style="list-style-type: none">Opportunity to include less-used software in bundles for product improvementRelates payment to usage	<ul style="list-style-type: none">Factors current engineering constraintsBuilds off of company strategy and progress with export and analytics featuresPrioritize net new MRR and deprioritize churnAligns GTM and engineering teams
Cons	<ul style="list-style-type: none">Customer Approach: Moderate, increasing MRR related to value and product usageComplexity: Mildly increased complexity for most CLIENT stakeholders to adopt to new tiers	<ul style="list-style-type: none">If customers hit threshold and don't upgrade, they learn to live without CLIENTCustomer Approach: Aggressive, tactics to increase MRR make churn and dissatisfaction more likely, nickle-and-dime perceptionComplexity: Fin/Opex to manage upsell, engineering, metering build, CSM manage dissatisfaction and offering, sales challenging coordination between users/accounts managers of when thresholds hit	<ul style="list-style-type: none">Requires capability to innovate with softwareCustomer Approach: NeutralComplexity: TBD

Approach that is highlighted in this section

www.CLIENT.com Sources: 1) ArchView Analytics

New Pricing Model

The proposed pricing model attempts to deliver value across a customer's life cycle at CLIENT

Base	Retention	Retention + Growth	Custom
<p>\$25 / user / mo</p> <ul style="list-style-type: none">Client Offering 1 VoIPScreenPopFaxMobile AppSupportEmail and Form only (reduced SLA)	<p>\$30 / user / mo</p> <p>Everything in Base PLUS</p> <ul style="list-style-type: none">SMSEsignExportChatPlusVideo ConferencingSupportEmail, Chat, and Form only	<p>\$40 / user / mo</p> <p>Everything in Retention PLUS</p> <ul style="list-style-type: none">All other current featuresLive SupportAll channelsCARE/OnboardingPriority account managementEnhanced training	<p>Custom</p> <p>Custom packages for organizations of 75+ users</p> <ul style="list-style-type: none">Bespoke packages include pricing, functionality, security, seats, and service levels

Notes: 1) Support tiers can clarify issues for selling customers 1 they don't will be more efficient 2) Prioritization for CARE means ensuring "direct" comparison and included in regularly releases. Onboarding means their implementations are prioritized over other Sources: 1) Previous analysis 2) ArchView Analytics

Overview

Situation

A PE-backed, lower-middle market B2B SaaS company had been growing steadily, but had a stale pricing/packaging

Solution

Refined customer segments including product usage, sales (cohorts and win/loss), lead generation, and customer success data to derive and communicate an accurate understanding of customer segments

Developed churn propensity model to forecast impact of pricing changes on notable segments including downgrade and churn estimates

Crafted new bundles and pricing model to address new and existing customer segments

Impact

Crafted a new pricing package that unlocks monthly recurring revenue from a smaller segment and helps eliminate overutilization of support resources. Initial projections estimate 8% increase in ARR

Pricing Diagnostic and Implementation

Analysis of pricing data and internal practices suggested opportunities to tailor pricing to specific customer segments

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Client has room to be more aggressive with pricing for customers between 6 and 70 PCLs due to perceived price insensitivity

Addressable Churn by Replacement Option – June 30th 2023 to May 2024

PCLs	Dual Hatted FSO	External FSO Head	Nonpayment	Unknown	Competitor	Churn #	Segment #	% of Segment	MRR
0 to 5	4%	1%	4%	8%	0%	29	165	18%	\$19,300
6 to 10	2%	1%	0%	5%	0%	12	144	8%	\$9,689
11 to 25	3%	1%	1%	3%	0%	15	186	8%	\$23,208
26 to 70	3%	1%	0%	2%	1%	9	151	6%	\$19,592
71 to 150	2%	6%	0%	2%	2%	6	49	12%	\$27,980
151+	0%	14%	0%	5%	0%	4	22	18%	\$42,750
Addressable Churn %	3%	2%	1%	4%	0%	75	717	10%	\$142,519

Internal FSO # / Segment #

Churn # (75) / Segment # (717)

Comments

- Our target market represents about 63% of addressable MRR churn
- After 70 PCLs, churn of the segment starts to increase (i.e. is more sensitive to price):
 - 90 to 150: 13%
 - 110 to 150: 19%
- Below 5 PCLs, churn starts to increase:
 - 0 to 3: 14%
 - 0 to 2: 14%
- "Unknown" is a high category because February through June were not categorized (except for nonpayment)

Client's smallest and largest customers are most price sensitive, meaning price increases should target 6 to 70.

Notes: There were 77 total addressable churns with term dates between February 2023 and June 2024 and 3 total nonpayment PCL counts. Source: SMC as of April 2024, PCL counts as from December 2023, "Christine Contracts". Client Close Out Tracker with Term Dates between February 2023 to June 30 2024.

1

Switching to a per PCL pricing approach addresses a maximum pricing gap of \$1.1M (+8%) for BU labor and software

ARR from Per PCL Pricing

Comments

- This is a maximum price increase because it would be impractical to increase some clients paying at the bottom of a tier to the top; we would expect dramatic churn based on that immediate increase in invoices
- Because of the significant price increase, we don't expect benefits from our smallest customers (0 to 10 PCLs)
- Results from pricing tests, conversations with account managers, and account-by-account analysis would inform how much of that increase can be captured

2023 ARR could have been 8% higher (maximum) if Client priced per PCL

Notes: 1) <200 PCLs used because above 400 PCLs and assumed to be negotiated as an Enterprise deal, includes SaaS BU revenue for BU users

Our analyses of our cost structure identify we're able to be more competitive with our largest deals

'24E Top-Down Estimate of Margin per Cust

Assumes 22,100 Cust

	BU 24E \$K	per PCL \$
Direct Expense		
Service Labor	4,844	219
Software-Related Labor	1,034	47
Hosting	232	10
Total Direct Expense	\$6,110	\$276
Direct Expense (Monthly)	\$509	\$23
SG&A		
SG&A (excl. D&A)	9,640	\$436
Direct + SG&A	\$15,750	\$713
Direct + SG&A (Monthly)	\$1,312	\$51

'24E Bottom-Up Estimate of Margin per Cust

Assumes 22,100 Cust

	BU 24E \$K	per PCL \$
Direct Expenses - Labor		
Helpdesk	4,105	186
Transition & Compl. Management	698	32
SaaS BU	327	15
Direct Expenses - Hosting	1,228	56
Hosting	232	10
Total Direct Expense	\$6,591	\$298
Direct Expense (Monthly)	\$549	\$25
SG&A		
SG&A (excl. D&A)	6,998	317
Direct + SG&A	13,589	\$615
Direct + SG&A (Monthly)	\$1,132	\$51

We estimate monthly Direct Expenses to be around \$23-25 per Cust

Notes: 1) Cust counts assume fully-booked at full capacity

1

This schedule provides clear pricing guidelines with flexibility to attract new, larger clients

	Standard BU			Premium BU			Admin Support BU			Hourly Services
	Small (1 to 50)	Medium (51 to 100)	Large (101+)	Small (1 to 50)	Medium (51 to 100)	Large (101+)	Small (1 to 50)	Medium (51 to 100)	Large (101+)	+80 PCLs per hour
Fee Schedule	See Rate Card			Standard Rate Card +20%			Standard Rate Card -25%			\$250
Sales Lowest Price to Offer ¹	See Rate Card			Standard Rate Card +20%			Standard Rate Card -25%			\$175
CRO Lowest Price to Offer	Rate Card	\$39.92 ⁴	\$18.18 ⁴	Rate Card +20%	\$46.67 ⁴	\$31.93 ⁴	n/a	n/a	\$31.47 ⁴	\$175
CFO Lowest Price to Offer	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD

	BU (SaaS BU)	SaaS BU Only
Per employee record		
Fee Schedule	\$10	\$10
Sales Lowest Price to Offer ¹	Change Labor first ⁵	\$7
CRO Lowest Price to Offer	Change Labor first ⁵	\$5
CFO Lowest Price to Offer	TBD	TBD

Notes: 1) CRO sets this limit 2) 1 time startup fees are roughly equal to the monthly option for 3 years with a discount to encourage MRR 3) See next section for tier description 4) Gross Margin (including SG) at 40% and 15%, \$1-100 and 101+, respectively 5) These prices proportional to the difference between Fee Schedule and Lowest of the Standard Tier 6) To prioritize software revenue for valuation, when SaaS BU is bundled with BU, it should be discounted as a lost return 7) When PCLs don't equal employees, CRO Lowest price is based on PCLs

Overview

Situation

After conducting a pricing diagnostic for an incoming CEO's value creation strategy, the PE-Backed SaaS and tech enabled services company realized there were significant gaps in pricing across multiple business units

Solution

Benchmarked pricing performance through analyses of win rates, cost base, customer satisfaction, churn, help desk performance, and product usage

Created new offerings and optimized pricing levels to stem churn, attract enterprise customers, empower sellers with flexibility in negotiation, and drive CSAT

Implemented pricing changes through coordination between management, finance, contracting, operations, and sales

Impact

Pricing optimizations and new offerings estimated to drive 10% ARR improvement over baseline within ~1 year

Confidential

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Thank You

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