SaaS Sales Models

Strategic and Organizational Choices

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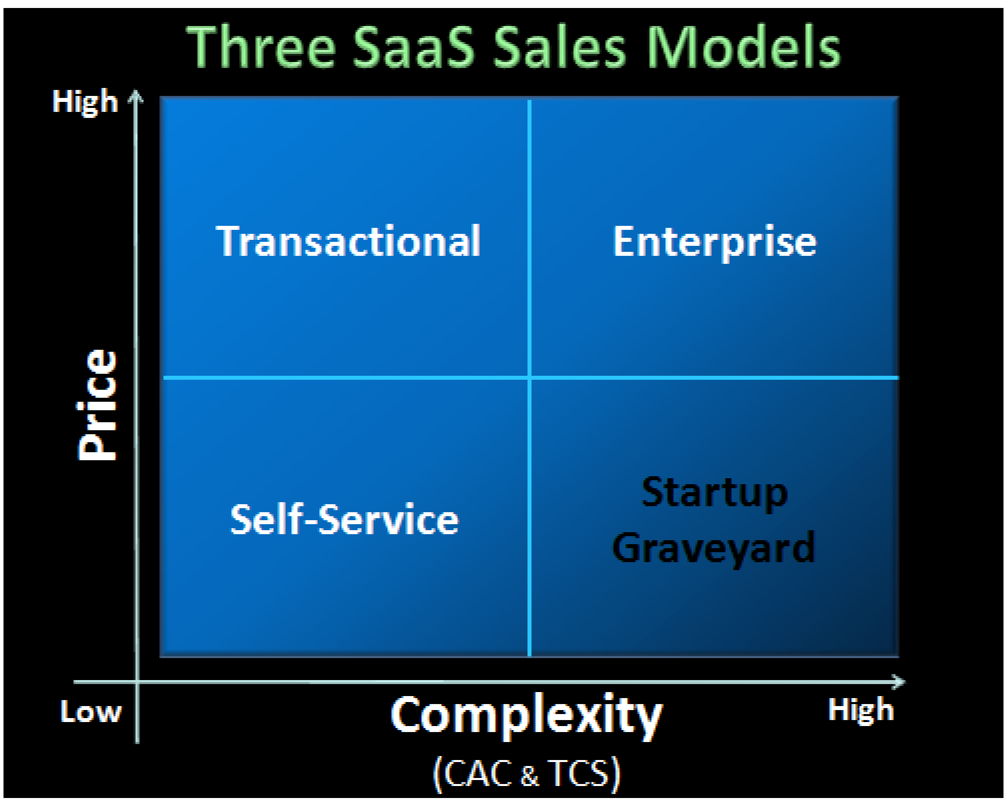
Strategic Dimensions

Choosing the right go-to-market sales model for your SaaS startup can be a make it or break it decision. Choose right and you grow smoothly from seed funding to A round to B round and beyond. Choose wrong and you spend precious cycles chasing your tail as cash runs out. While most B2B SaaS startups that offer recurring revenue subscriptions gravitate toward a transactional sales model characterized by inbound marketing and inside sales, this is not always the case as pointed out in this recent article entitled the *Debunking the SaaS Sales Model Myth* by my esteemed colleague Jeff Kaplan. But, how do you go about choosing the right SaaS sales model for your particular SaaS startup?



Price and complexity define a strategic spectrum of sales approaches for SaaS startups that gravitate strongly toward three distinct SaaS sales models: self-service, transactional and enterprise.

Price is Paramount

What's your average selling price? I don't know any single statistic that provides more insight on a SaaS startup, or any business for that matter, than average selling price (ASP). Average selling price is the intersection of supply and demand and as such it measures external factors like customer value and competitiveness, while it constrains operational metrics like costs, volume and risk.

Your ASP places a ceiling on your customer acquisition cost, which in turn limits your SaaS sales model options. If your ASP is $500 annual recurring revenue (ARR), then you are unlikely to be able to fund a direct sales force, because your sales rep would need to sell 1000 deals per year to come close to covering your customer acquisition costs. Whereas if your ASP is $500,000 ARR you only need to close a single deal, so you can afford to fly out and wine and dine your prospect to your heart's content.

Price has an inverse relationship to deal volume. For example, achieving $10M in total revenue with a $1K ASP requires 10,000 customers, whereas a $10K ASP only requires 1,000 customers. The volume requirement implied by ASP flows back through the sales process to put pressure on every upstream metric. Low ASPs require large target markets, more leads, more pipeline, higher conversion rates, shorter sales cycles, and so on to deliver a high volume of customers. High volume also requires more customer self-service, more automation and less labor, because labor is expensive, slow and has poor economies-of-scale.

Conversely, price has a direct relationship to risk. High ASP means high risk. The more risk, the more your customers will desire a personal relationship. It is the rare customer that will part with $50,000 through a self-service portal (although the Google AdWords customer does come to mind). Lacking the brand security of an established player like Google or Salesforce.com, a SaaS startup must put a human face on its service to overcome this fear. Luckily, high ASP pays for the sales and support labor required to create the personal relationship.

Complexity Constrains

How difficult is it for your customer to buy your product? Is your SaaS offering easy to find, easy to understand, easy to try, easy to buy and easy to use? Every hurdle that stands between your product and your customer reduces your sales velocity, decreases close rates, and increases your costs. The more complex the purchase, the more the prospect will need help. And, the fewer choices you will have regarding your SaaS sales model.

You can make every effort to eliminate complexity, but at any given time the amount remaining must be surmounted by your SaaS sales model. For example, a new social collaboration SaaS may appear so foreign that prospects have difficulty understanding what it is, let alone what it can do for them. Onboarding a SaaS ERP might require the customer to alter internal business processes before any value is realized. In both cases, it will fall to your SaaS sales model to help prospects navigate the complexity.

Three SaaS Sales Models

Price and complexity define a strategic spectrum of sales approaches for SaaS startups that gravitate strongly toward three distinct SaaS sales models: self-service, transactional and enterprise. While a mature SaaS business may employ all three, a SaaS startup will have the resources to master only one. However, this choice is not always straightforward when you are entering or creating a new market, because you must first find balance between price and complexity.

Getting the right alignment between price and complexity means ensuring the value customers place on your product always exceeds the price, time, fear and frustration they must pay.

Price and complexity are natural adversaries. Higher complexity means higher costs, thus requiring higher ASP. *But just because your product is difficult to buy doesn't mean your prospect is willing to pay more for it.* Getting the right alignment between price and complexity means ensuring the value customers place on your product always exceeds the price, time, fear and frustration they must pay. Once you achieve the right balance for your market, your choice of SaaS sales model will be obvious. Fail to find it, and you end up in the Startup Graveyard.

Customer Self Service

Achieving significant revenue at a low price point naturally entails driving complexity and cost out of the purchase to clear the floodgates for high volume. The ideal SaaS sales model is complete customer self-service. However, *this requires that your customers be willing and able to service themselves*. Able customers understand the value of your product, how to buy it and how to use it. Willing customers see little risk and frustrated effort in the purchase. Good examples come from well understood commodity office productivity tools that are easily adopted by a single user or a department manager, such as those offered by Zoho and 37signals. The customer self-service SaaS sales model typically breaks down across customer-facing functions as described in the table below.

Customer Self-Service Sales Model	
Sales	None
Marketing	Full revenue responsibility, creating awareness, educational content and automation capable of driving business through the entire purchase process from awareness to close.
Technical Support	Provides automation and tools for easy on-boarding, plus templates and educational content that allow customers to resolve any issues they encounter on their own.

Transactional Sales

As price increases, customers become less willing to part with their cash without at least knowing there are actual trustworthy human beings behind your website URL. Higher ASP brings higher expectations for the business relationship, such as signed contracts, premium SLAs, invoicing, and the ability to speak to a human when problems arise. The risk-driven need for a more interpersonal business relationship drives the SaaS sales model away from customer self-service into a transactional sales model characterized by efficient, high volume sales and support operations, short sales cycles, and rapid onboarding—all supported by automation that allows for as much customer self-service as possible were customers willing and able to service themselves, which they are neither. Good examples come from products that automate a well-defined business process or function with a bit of an Internet twist, such as those offered by Marketo, Zendesk, and Xignite. The transactional SaaS sales model typically breaks down across customer-facing functions as described in the table below.

Transactional Sales Model	
Sales	Inside sales reps supported by online content and automation, tools, training, incentives and metrics that enable high efficiency and many transactions per rep.
Marketing	Feeds highly qualified leads to the sales team to build pipeline and improves efficiency by removing roadblocks through educational content and automation that drive complexity out of the purchase.
Technical Support	Inside support reps that meet a range of SLAs from limited pre-sale support through premium post-sale support with tools, training and metrics that enable high efficiency and many transactions per rep, complemented by customer self-service tools, templates and educational content.

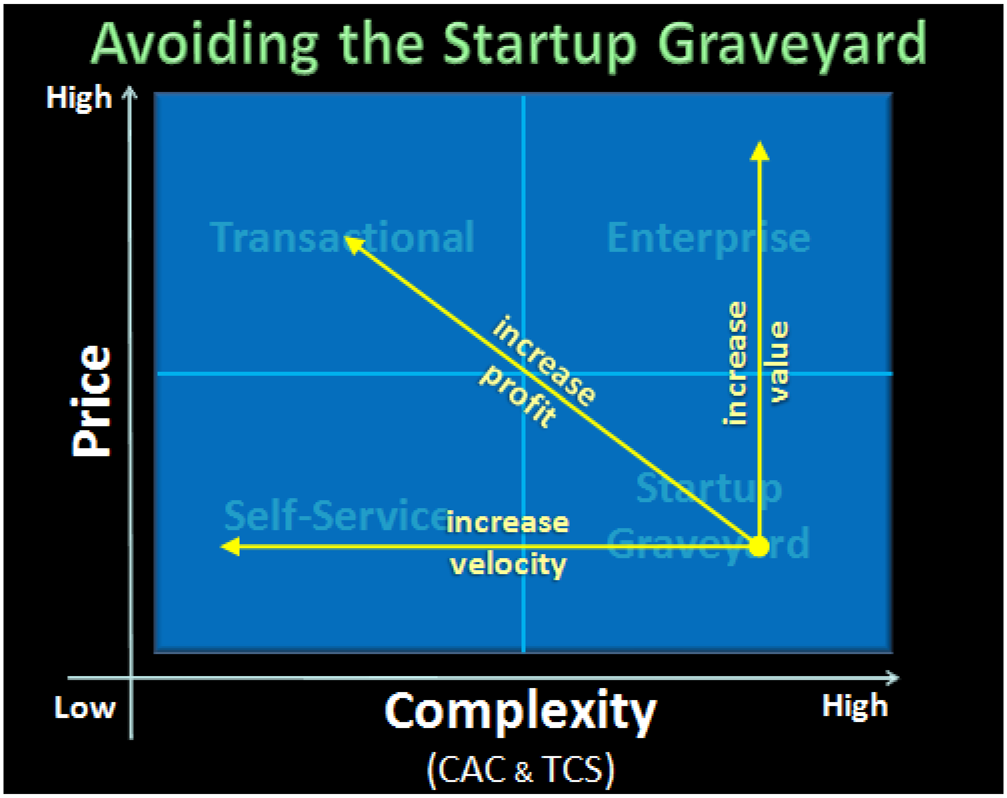
Enterprise Sales

While most SaaS startups gravitate toward transactional sales or customer self-service, some SaaS startups have products that provide so much value per customer and are so complex to buy that their natural starting point is traditional enterprise sales. Two good example categories are cutting-edge Internet marketing tools employed by big brand consumer marketers, such as BazaarVoice and BrightEdge, and feature-rich suites that automate strategic, core business processes for mid-to-large enterprises, such as Netsuite, Workday and Passkey. The enterprise SaaS sales model typically breaks down across customer-facing functions as described in the table below.

Enterprise Sales Model	
Sales	Territory-based sales reps focused on a narrow set of target prospects directly supported by product marketing and sales engineering resources at a deal level.
Marketing	High-end marketing that facilitates brand awareness, education, relationship building and trust, complemented by direct support of the sales team, including telemarketing speeding access to target prospects and detailed sales tools such as product roadmaps, ROI calculators, etc.
Technical Support	High touch support up to onsite issue resolution complemented by educational tools and training tailored to the specific needs of individual customers.

Avoiding the SaaS Startup Graveyard

Regardless of your price, your SaaS sales model must provide sufficient support to enable prospects to navigate the complexity of the purchase or you will not close business. You can give your product away in a Freemium price scheme, but if the purchase is too complex, you can still find yourself hand-holding every single free customer akin to an enterprise sale. You just can't give away complex software. Only customers that are willing to pay an exorbitant price for your hugely valuable service will also pay exorbitant amounts of time, fear and frustration to wade through the complexity of getting it. *When complexity forces you into a SaaS sales model where the costs exceed your ASP, your business is destined for the SaaS Startup Graveyard.*



SaaS startups that combine low price with high complexity end up in the SaaS Startup Graveyard.

There are three strategies for avoiding the SaaS Startup Graveyard, all of which amount to aligning price and complexity, so you can gravitate safely toward a viable SaaS sales model.

Increase Velocity

The goal of this strategy is to reach a customer self-service SaaS sales model by holding your price point low and driving out complexity to build volume rapidly. To succeed at this strategy, your business must be capable of overachieving on both SaaS Do #1 Choose a Large Market and SaaS Do #3 Accelerate Organic Growth, and you must absolutely avoid SaaS Don't #3 Launch without Online Trial.

Increase Profit

The goal of this strategy is to reach a transactional SaaS sales model by finding balance between ASP and CAC (customer acquisition cost) through operational efficiency and focus on the most profitable market segments. To succeed at this strategy, you should follow SaaS Do #4 – Craft a Compelling Story to attract only the prospects you really want to sell to, and then make it easy for them to find you by SaaS Do #2 Create a Hub on the Web and get them through the purchase efficiently by SaaS Do #5 – Build the Business into the Product.

Increase Value

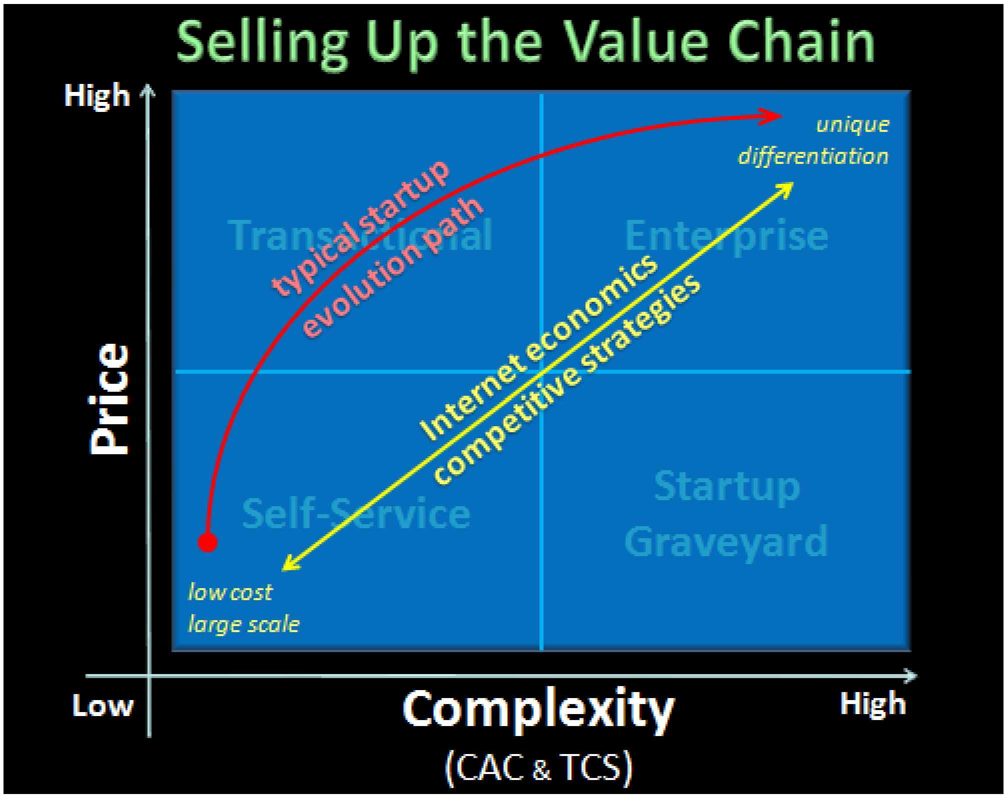
The goal of this strategy is to reach an enterprise SaaS sales model by adding value through product innovation and restricting your market to target prospects that see the most value in your offering. To succeed at this strategy, you business must innovate as in SaaS Do #6 Reach Across the Firewall without falling prey to SaaS Don't #1 Chase Elephants that ruin your economies-of-scale, and preserve the core SaaS cost advantage through SaaS Do #8 Enable Mass Customization.

The SaaS startup holy grail lies on the opposite end of the spectrum from the SaaS Startup Graveyard. High ASP combined with low complexity characterizes the most wildly successful SaaS offerings like Google Adwords and Amazon Web Services (cloud in this case), where customers routinely write six figure checks with the most minimal amount of personal interaction with sales and support reps.

SaaS Startup Evolution

As a SaaS startup evolves into a mature SaaS business, growth aspirations naturally lead to the desire to expand market reach to new prospects and to expand product footprint with current customers. The SaaS startup that enters the market with a customer self-service SaaS sales model represents the origin of a natural evolutionary path. The theory is straightforward. The nimble SaaS startup that has built a large self-service customer franchise for a super simple product starts pumping in new features, develops modular pricing schemes, adds a few sales reps and sets off on a quest to increase ASP from $10MRR to $100MRR to $1000MRR to $10,000MRR and beyond!

However, the straightforward tactics belie the tectonic strategic, operational and cultural shifts required for success. Underlying the simplicity of the customer self-service model is a mass market, low cost competitive strategy, whereas, the enterprise sales model assumes a highly differentiated product, usually characterized by cutting-edge Internet-enabled innovation. Maintaining the simplicity of the customer self-service model as a successful SaaS startup introduces more complex products and purchase processes in close proximity to the originally simple, self-service product and purchase process requires careful planning and execution. Should the products be separate offerings or modules of a single offering? Should transactional sales arise by skimming the cream of customer self-service prospects, or should entirely new lead generation vehicles be put in place. Are enterprise customers just transactional customers who are all grown up, or an entirely different species? It is often said that it is easier to move up market than down market. This is probably true, but it is NOT easy to move up without inadvertently abandoning the down.



A SaaS startup that aspires to evolve beyond a single SaaS sales model faces the challenge of mastering multiple competitive strategies.

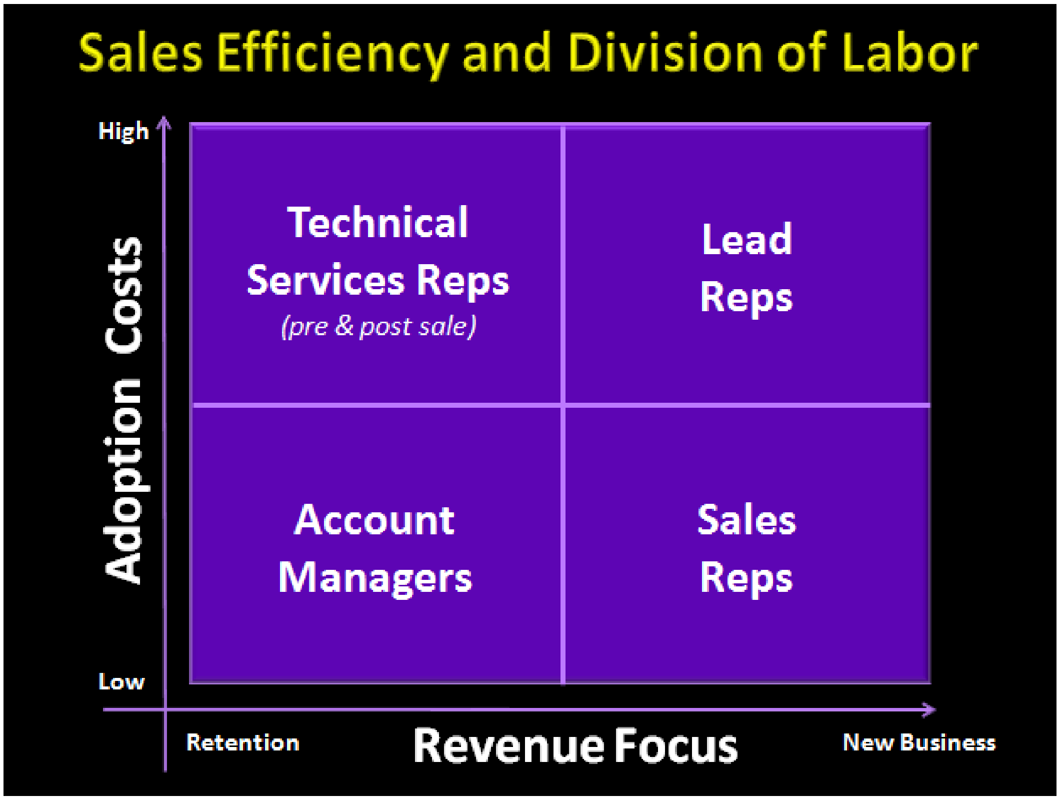
Tough Organizational Choices that Can Make or Break You

There is no one right SaaS sales strategy or organizational structure. There are only the strategies and organizational choices that are right for your specific SaaS business at a specific point in time with your specific situation, i.e., customers, products, growth, maturity, etc. However, these strategic decisions can make or break the growth and profitability of the business, because more than any others they determine the balance between maximizing revenue and minimizing acquisition cost. They are some of the toughest choices a SaaS Sales VP or CEO has to make.

The SaaS Adoption Dilemma

The third article in my SaaS Sales Tips series discusses strategies for accelerating organic growth by making it possible for your customers to buy from you even if you don't show up for work. But, what do you do when you need revenue today and your under-educated customers and your overly-complex SaaS product just can't seem get it together on this self-service approach? You've just encountered the SaaS Adoption Dilemma, a situation that arises when your adoption costs are way too high and you must choose a strategy for lowering them. Your very unpleasant short term choices are a) forego revenue until your online marketing and support reach maturity and b) cover up the problem with people and wreck your acquisition costs. If you're measured on revenue as opposed to contribution margin and you earned your sales stripes in enterprise software, then you will probably choose option b) without a second thought. But, you may have just made your quarterly commission while sinking your company, your stock options and your job when the business runs out of cash.

The organizational strategies of option b) typically come in two flavors: pre-sale lead reps to find, educate and qualify prospects and pre/post-sale technical services reps to ensure successful on-boarding and ongoing use of the product (aka technical support reps, sales engineers and customer success reps). While the vision should be for these activities to be 100% automated, the reality is that they rarely are in the early days and that there is a limit at maturity to the achievable degree of automation set by the inherent complexity of your product and self-serviceability of your customer. These constraints imply a steady state organization at maturity–for example a ratio of three sales reps to one lead rep and one technical services rep–that you are sure to overstaff in the early stages before you have fully exhausted the potential for customer self-service through adoption automation. The danger is that you lock into this bloated, early stage organization model and create excuses for not simplifying adoption through automation, thus killing your long term profitability. A great way to stay on top of this threat is to include all ancillary staff in your calculation of sales productivity: revenue per rep, where rep includes everyone required to acquire and keep a customer, not just the sale rep.



SaaS Sales Organization Options Arranged by the Strategic Dimensions They Address

Hunting, Farming, and Other Pastimes

Conventional wisdom holds that SaaS sales organizations should be split into separate sales and account management groups that are responsible for new business and recurring business, hunters and farmers respectfully. While this is a good rule of thumb, it is not always the case. I've seen plenty of SaaS sales organizations that do not follow this model and they usually have good solid reasons for doing otherwise. So, it's worth reviewing the rationale for this split in the first place: churn. Churn is the rate at which customers cancel their subscriptions. If it is greater than your new business bookings rate, then you are shrinking instead of growing! Many SaaS businesses target a churn rate of less than 10% annually, which is no small feat–it requires very, very satisfied customers, hence the account management function. In addition to lowering churn, a strong account management organization will also drive upgrades by increasing use of the product through continuing education and support. The overarching goal of this organizational strategy is to maximize lifetime customer value.

If your SaaS application follows the typical end user-based monetization model of pricing broken out by levels of functionality such as base, professional and enterprise versions and it is frequently adopted by a smaller group within a larger organization, then there is a very good chance that the tried-and-true hunting vs. farming split will work for you. In this scenario, revenue from existing customers is maximized by deepening and broadening each customer's use of your application. But what if retention and increased product use is NOT the primary driver of revenue from current customers? What if you sell a large portfolio of relatively straightforward products, like Zoho or Xignite? In this case, revenue from current customers is just as likely to come in the form of up-selling additional products. What if you are a B2B2C platform, where the growth rate of your customer's customers is the primary driver of future revenue? And, how important is the continuity of interpersonal relationships between the customer's decision makers and your sales team? Given all the organizational choices presented here, the worst case scenario is that your strategic relationships are continually shuffled from lead rep to sales rep to technical services rep to account manager and back again. In addition, the split between new sales and account management is time-dependent on market maturity, i.e., prospects vs. customers, so it will change as the business grows.

What's Your Sales Productivity?

I've mentioned that the root cause of these tough SaaS sales choices is the trade-off between revenue generation and acquisition costs. In theory, there is an optimal strategy for growth that doesn't sacrifice long term profitability. When it comes to measuring the impact of sales organization strategy on both growth and profitability, the metrics to watch are revenue per rep and its close financial cousin, sales contribution margin.

revenue per rep = average deal value x close rate x qualification rate x leads / reps

sales contribution margin = 1 – cost per rep / revenue per rep

Where revenue and average deal value are SaaS measures of recurring revenue for a given time period, i.e., monthly (MRR), annual (ARR), or lifetime (LTV), and reps are ALL the staff responsible for producing said revenue and costs during that time (not just sales reps).

Many SaaS companies follow an inbound transactional sales model where the sales capacity must be matched to the inbound lead flow, otherwise adding reps causes revenue per rep to decline (note the ratio of leads/reps in the formula). Simply put, if marketing delivers 100 leads and you have 2 reps, then they each get 50. If you have 4, then they each get 25. And, so on. This is in contrast to an outbound transactional sales model where leads per rep is a constant and the number of leads scales automatically with the number of reps, i.e., more reps, more sales calls, more leads. Adding reps in an inbound sales model when you don't have the leads to support them is the proverbial pushing on a string.

Therefore, the labor-intensive sales organization strategies above should only be applied when the investment demonstrably increases sales productivity in the form of revenue per rep through higher qualification rates, higher close rates, higher deal values, and shorter sales cycles (less time per deal). A sales organization that generates $2M ARR per rep and has an annual cost per rep of $100K will be far more profitable than one that generates $200K ARR per rep. If you are at $200K ARR today, can you increase the efficiency of your sales organization and accelerate organic growth to reach $2M tomorrow?

Customer Self-Service — The Holy Grail of SaaS

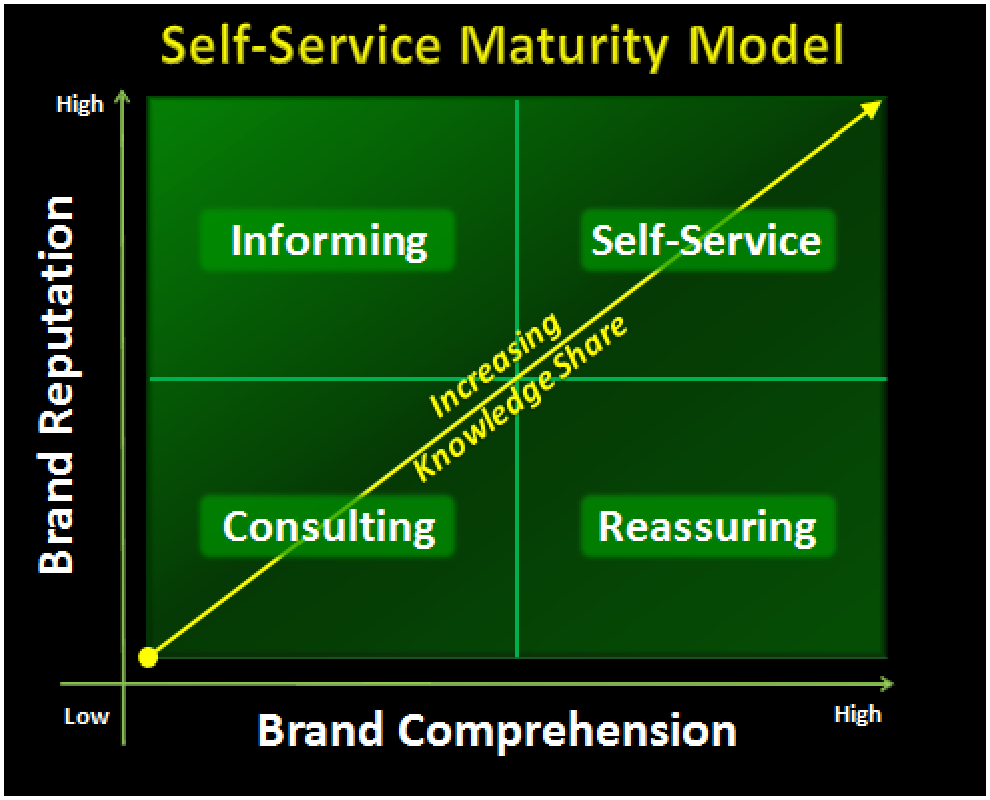
One hundred percent customer self-service is the holy grail of SaaS. Everyone looks for it, but it is never found. Even if your product is simple enough to provide complete self-service purchase, you are unlikely to get away with complete self-service support, because you can't hang unhappy customers out to dry or you will ruin your reputation. Nonetheless, the divine power of the Internet to help customers help themselves combined with the promised land of lower customer acquisition cost and lower cost of service will always enrapture the true SaaS believers and hasten them on their quest.

SaaS Top Ten Do #3 : Accelerate Organic Growth depicts the SaaS self-service holy grail as revenue generation with zero marginal costs, because your customers can find, try, buy and use your product even if no one shows up for work. But just because your customers can, doesn't mean they will. It's very hard to build a product that enables one hundred percent customer self-service. In some cases it is impossible. Imagine your frustration when you finally achieve 100% on-boarding automation and those pesky customers simply refuse to do it.

The Self-Service Maturity Model

The closing post of my recent New Breed of B2B Buyer series introduced the concept of the self-service limit in B2B sales. The self-service limit is that point where a customer's desire for instant gratification is thwarted by the complexity of purchasing and using your product. Purchase complexity comes in two flavors: informational and emotional. *Informational complexity arises when the buyer requires education to consummate the purchase. Emotional complexity arises when the purchase entails a personal risk to* *the buyer. When these purchase barriers become high enough, the buyer simply will not make the purchase without the aid of a salesperson.*

Complexity, however, is a subjective measure that is different for every single customer. In particular, and this is the point, *complexity is very different for the novice and the experienced buyer*. An experienced buyer knows your company and trusts your brand. An experienced buyer knows your product and fully understands both its value and its use. As your customer base increases, so does the percentage of experienced buyers in your market, your *knowledge share.*



The percentage of experienced buyers in the market, knowledge share, increases as a SaaS business matures. Experienced buyers that trust and understand your brand are not only capable of one hundred percent self-service, they usually prefer it, bringing you closer to this holy grail of SaaS.

Increasing knowledge share reduces both the emotional and the informational complexity of buying your product. A strong brand reputation reduces purchase risk and alleviates buyer fear, eliminating the need to be reassured by a salesperson that your company is the real thing. Whereas deep comprehension of your brand gained through experience, eliminates the need to be informed by a salesperson about what your product can do, how to buy it, and how to use it. Consider the tens of thousands of dollars the experienced Google AdWords customer spends today without speaking to a salesperson as compared to when the service first launched. Experienced buyers are not only capable of one hundred percent self-service, they usually prefer it. Therefore, the greater your knowledge share, the closer you come to the SaaS holy grail of complete customer self-service.

Mindshare, Market Share and Knowledge Share Drive Organic Growth

While most SaaS executives understand the basic marketing concept of brand awareness and are all about getting out the buzz (mindshare), far fewer understand the importance of brand comprehension and getting out the knowledge (knowledge share). In the fight for market share, it is strategically important to build knowledge share as well as mindshare through deep market education and engagement with your customer community. Otherwise, you may find that everyone has heard of you, but no one is buying from you.

Many SaaS startups compete directly with enterprise software versions of the same basic product. In the beginning, they service SMB segments that their enterprise software competitors cannot reach. But as they mature, they compete more and more for the replacement market held by the incumbents. Prospects know your competitor's product at a very deep level, because they have been buying it and using it for years. They don't know yours. This gap in knowledge share creates a switching cost that favors the status quo. It's just a lot easier to keep doing things the way you know how than to learn something new. Without a true understanding of your product at an experiential level, promises of rapid deployment, simplicity of use, easy maintenance and low TCO are simply that: promises.

Mindshare, market share, and knowledge share comprise a positive feedback loop that drives organic growth. The greater your mind-share, the more prospects come to you of their own accord and become customers, increasing your market share. The greater your market-share, the more experienced buyers, increasing your knowledge share. The greater your knowledge share, the more your experienced buyers share their trust and knowledge with your future prospects, enabling customer self-service, driving organic growth, and paving your path to the holy grail of SaaS.

About

This whitepaper is based in part on recent blog articles at Chaotic Flow by Joel York. Joel York has 20 years of experience bringing software and software-as-a-service (SaaS) products to market and is a recognized leader in the cloud community. Joel has managed global sales and marketing organizations serving over 50 countries, including local operations in the US, UK, Germany, Israel and India. His experience ranges from freemium SaaS subscriptions to $5M enterprise deals. Joel shares his expertise on SaaS and cloud business strategy at Chaotic Flow and Cloud Ave.

Joel has held senior management positions leading the sales and marketing organizations from startups to public companies, including Xignite, Navis, eMind, Passlogix and SPSS. He also consults on SaaS strategy and operations as Principal at Affinitos, where he has worked with numerous rapidly growing SaaS startups such as Zendesk, Conduit and AppFirst. Joel began his career at Deloitte Consulting. He holds a B.S. in Physics from Caltech, an M.S. in Engineering Physics from Cornell University and an M.B.A. from the University of Chicago.

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