snowflake®

CONSUMPTION-BASED PRICING PLAYBOOK

How to Innovate on Your Revenue Model

CHAMPION GUIDES

EBOOK

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Consumption-based pricing addresses age-old customer concerns about paying upfront for a SaaS solution without any guarantee around adoption, usage, or outcomes. When customers pay only for what they use, cost is tied directly to value. This alignment has potential benefits for both customers and SaaS providers, many of which are looking at adopting consumption-based pricing models as an alternative to the subscription model.

A great product married with an easy-to-understand consumption-based pricing model can pack a powerful one-two punch for your business. Just as you invest in R&D to drive product innovation and continue to provide value to customers, investing in revenue model innovation can create more value from existing products. Effective execution of a true consumption-based methodology takes much of the friction out of the sales cycle and enables faster expansion of your customer base.

However, making this shift involves tackling five key areas—all of which require SaaS providers to think strategically and leverage their data and insights to the fullest extent:

1. **Pick a value metric.**
2. **Modernize your sales process and compensation structure.**
3. **Rethink your revenue playbook.**
4. **Help customers predict and optimize spend.**
5. **Leverage data.**

Read on to learn why you should consider changing your pricing model and get recommended steps to make it happen.

CONSUMPTION IS KING: WHY THE FUTURE OF PRICING IS USAGE-BASED

SaaS companies have relied on subscription-based pricing for more than a decade. Subscriptions are a popular way to sell SaaS solutions because transactions are relatively uncomplicated. Customers can budget for the purchase, and SaaS providers can forecast revenue with a high degree of precision.

However, today's customers are tired of shelfware. They don't want to waste money on seats that go unused or pay upfront for solutions that may suffer from poor adoption. Usage is variable by nature, challenging to predict, and represents an unknown value-to-cost ratio. Customers prefer a try-before-you-buy approach and paying for exactly what they use.

Any SaaS provider that uses modern cloud and data architectures should rejoice at this shift in customer preferences. Most cloud and data services charge based on consumption, leaving SaaS providers exposed if they don't align the metrics for how they pay for their delivery costs with the pricing they offer their customers. It's not hard to imagine what happens if an active customer uses more data and cloud services than is covered by a fixed subscription price. This lack of alignment can cripple startups and eat into revenues for established companies..

Remarkably, both SaaS providers and customers benefit from the cost alignment built into consumption-based (or usage-based) pricing.

For providers, it represents the best way to launch and sell a sustainable solution. Usage models eliminate a lot of friction found in the sales process. Target customers don't have to make a huge financial commitment in order to try out your product. As a result, the usual objections in the sales process are moot, replaced by discussions around the best use cases for deploying your offering.

For customers, it encourages organizations of all sizes to experience the solution without risk, thanks to a low-entry price point. No one is concerned about purchasing oversized subscription packages to meet occasional peak demand periods. And every target customer loves to hear that they don't need to do anything during a lull in usage (other than pay less).

The beauty of a well-designed consumption pricing model is that it shifts cost control to the customer and provides them with maximum flexibility. Often, these factors lead to an increase in usage and the addition of use cases as value is discovered.

In fact, public companies that use consumption-based pricing are experiencing 38% faster revenue growth over their SaaS peers and 50% higher revenue multiples, based on research from OpenView.[1] These public companies are also valued at a revenue multiple of 24.8x vs. 17.7x over SaaS peers by the public markets, according to findings by Sapphire.[2]

Not surprisingly, growth in consumption encourages customer retention as well. In the OpenView study, top-quartile net dollar retention for providers with usage-based pricing is 120%, compared to 110% for the broader SaaS index.[3]

From an operational perspective, consumption-based pricing enables SaaS providers to scale business models with agility and simplicity. That's because consumption-based pricing does not include complicating factors around user types, roles, or subscription tiers. SaaS providers choose a value metric that equates to a price per unit and then charge based on usage—regardless of the user.

Perhaps most importantly, consumption-based pricing compels SaaS providers to better understand customers' behavior and usage patterns. Through metering, you benefit from a continuous flow of data that illuminates each customer's behavior in real time. This data gives your sales reps the ability to have in-depth conversations with each customer about how they're using the product and which new use cases might make sense. Product and Engineering teams can discover, prioritize, and build product enhancements that match actual usage and need.

In summary, a consumption-based pricing model aligns cost to value. It allows customers to take a value-based approach to buying solutions, and enables SaaS providers to demonstrate a commitment to their customers' success. Ready to get started?

HOW TO GET STARTED WITH CONSUMPTION-BASED PRICING

Pricing is one of the most crucial business and profitability decisions you make within your revenue model. Price a solution too low and you miss out on potential revenue; price too high and you may drive business to competitors. In contrast, a well-priced solution attracts customers and enables you to gain market share.

Pricing equates to two things for customers:

- **Value:** Customers must believe that your pricing aligns with the perceived value you aim to deliver.
- **Alternatives:** The value you deliver must be stronger than what your competitors are offering and more attractive than the status quo.

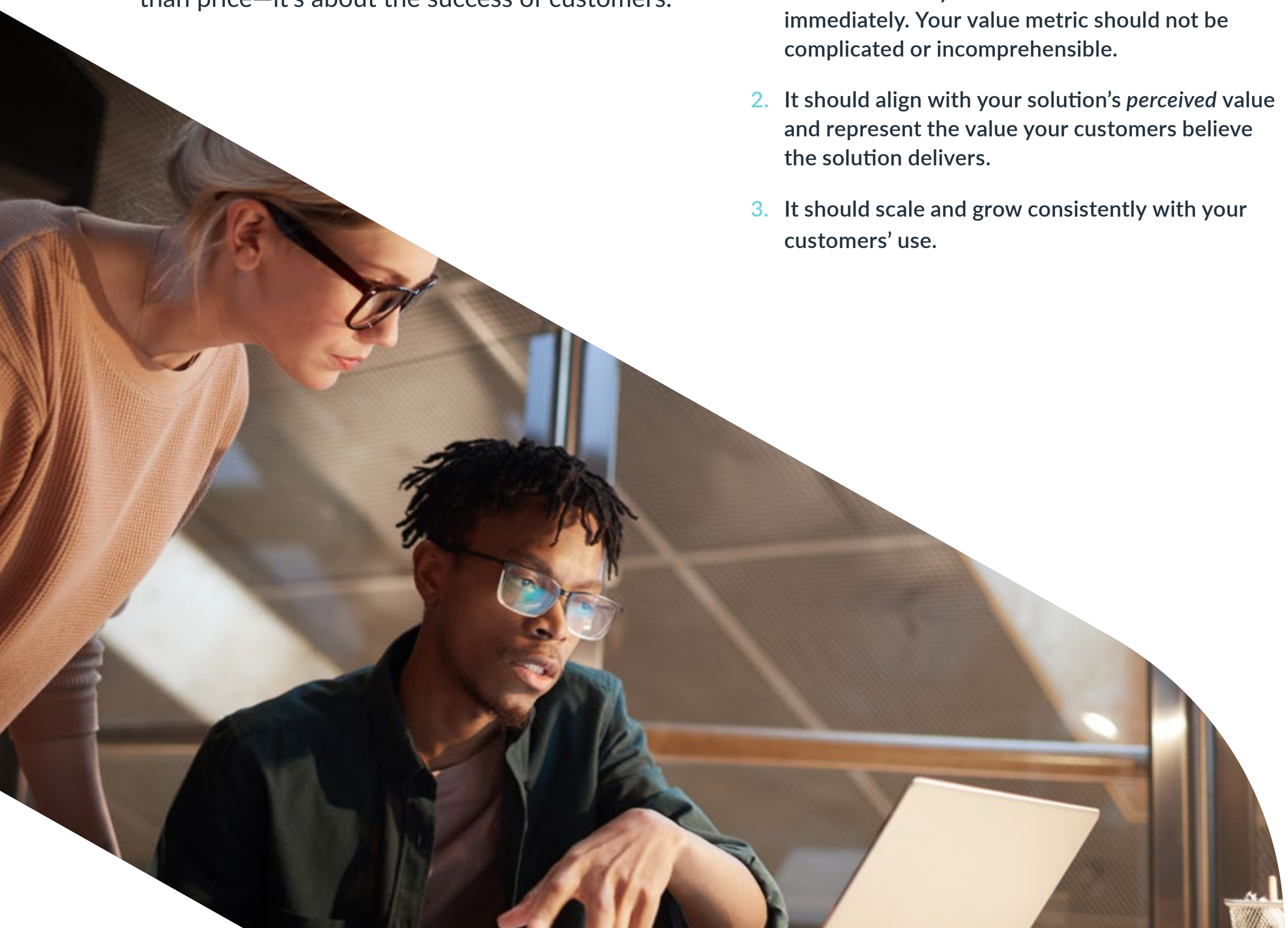
There is a huge potential upside when you move to consumption-based pricing, but that doesn't mean the shift will be straightforward. An established SaaS provider will need a certain level of fortitude to change its revenue model and the downstream financial operations. Internal processes and systems must be able to accurately track consumption to bill individual customers correctly, which may require re-examining infrastructure. And, of course, none of this is possible without access to fast, accurate data.

As you prepare for the shift to a consumption-based pricing model, focus on these five areas to minimize stress and help ensure success:

1. **Pick a value metric that communicates your solution's benefits for customers.**
2. **Modernize your sales process and compensation structure by aligning your sales team's comp plan to the way customers derive value from your solution.**
3. **Rethink your revenue playbook to account for the variable nature of consumption and the challenges associated with forecasting revenue.**
4. **Help customers predict and optimize spend through consumption transparency, picking the right payment structure, and managing overage scenarios.**
5. **Leverage data by unifying it in a central repository so you can deliver a holistic view that provides insights into consumption and your financials on a daily basis.**

PICK A VALUE METRIC

One of the biggest challenges is determining how to price your product. A well-priced solution benefits both SaaS providers and customers. It transforms providers into advocates for value, and value is about more than price—it's about the success of customers.



The purpose of a value metric is to communicate your product's value to customers. It demonstrates an understanding as to why customers pay you for your service. Here are three factors to keep in mind when choosing your value metric:

1. **It should be easy for customers to understand immediately. Your value metric should not be complicated or incomprehensible.**
2. **It should align with your solution's *perceived* value and represent the value your customers believe the solution delivers.**
3. **It should scale and grow consistently with your customers' use.**

HOW TO CHOOSE A VALUE METRIC

Start by recognizing the challenges and use cases that customers are trying to solve when they select your solution. Today's users are driving a value-based approach to buying solutions, so that's a great place to begin. It's where your value exists. Think about how your solution functions in order to solve a problem, and then consider the outcomes your customers track.

Here's another source of potential inspiration: Have any of your competitors adopted a usage-based pricing model? If so, look at what they picked as a value metric. It might be the right value metric for you, or it might spark ideas around value metrics that are even more appropriate for your target audience.

Whatever value metric you select, don't forget to ensure that it aligns with your delivery costs and will scale and grow with your customers. The only way to uncover this ideal provider-and-customer alignment is through testing. Yes, that means you should put your value metric out in the wild and see how it performs with real customers. Keep in mind that you'll need to be patient—a data-driven approach requires implementing, testing, and iterating different ideas. It takes time and honing to ensure your value metric aligns with your underlying technology and resonates with your customers

Value Metric Examples

Organization Type	Value Metric
Internet marketing platform	# of marketing contacts
Monitoring and analytics tools	Amount of ingested or scanned GB
Authentication services	# of external active users
Communication platform	# of SMS messages
Cloud computing service provider	Per GB / domain
Security network	Per feature pricing
Task automation service	# of tasks

CHECKLIST: TEST THE STRENGTH OF YOUR VALUE METRIC

- [ ] Does your value metric clearly communicate your solution's value?
- [ ] Does it match how customers think and talk about your solution?
- [ ] Does it scale with customer usage and encourage more spend?
- [ ] Does it provide flexibility for customers?
- [ ] Does it align with your costs and support financial growth?

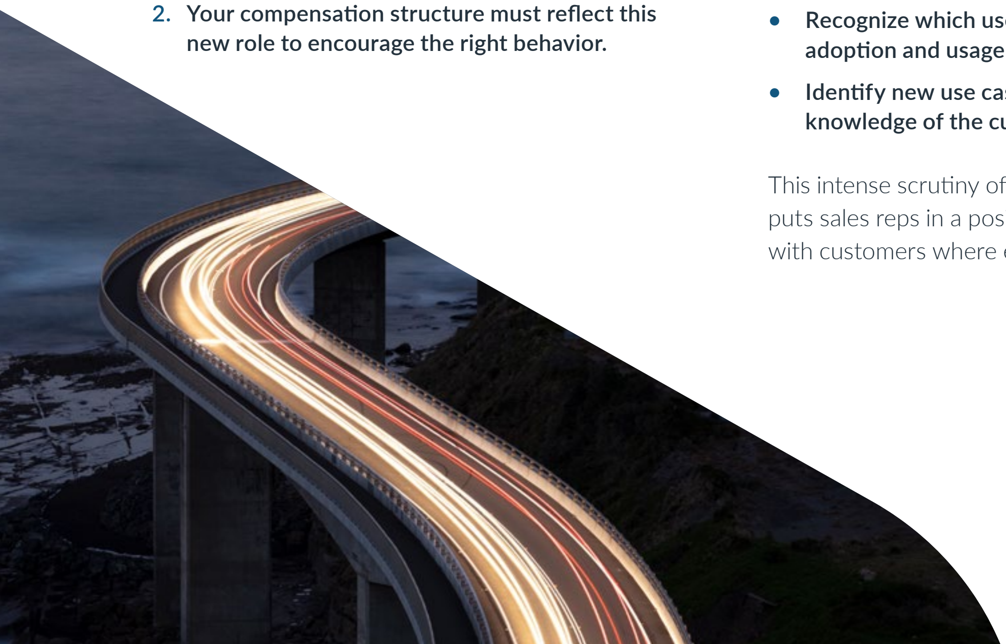
MODERNIZE YOUR SALES PROCESS AND COMPENSATION STRUCTURE

Consumption-based pricing means revenue is earned through usage rather than generated primarily from bookings and renewals.

You may be wondering how to incentivize and pay sales reps if there's no upfront payment from customers. Rather than frame the challenge around your sales team's compensation, reorient the question toward customers and ask: *"How do you align your sales team to the way the customer derives value from your product?"*

There are two answers, both of which require modernizing your sales organization:

1. **Sales reps must become active participants in the entire customer lifecycle.**
2. **Your compensation structure must reflect this new role to encourage the right behavior.**



SALES REPS AS ACTIVE PARTICIPANTS IN THE CUSTOMER LIFECYCLE

At the heart of consumption is a customer-centric approach to sales. Incentives are tied directly to the customer's realization of value. Sales reps must take on a new role where they help the customer discover how great the solution is and give them reasons to use it (and use it a lot).

Not surprisingly, sales reps must undertake a sizable mindset shift and learn to invest in customers' long-term success if they want to reap financial benefits. Sales reps must:

- **Understand each customer's unique challenges and what services or products will deliver real value;**
- **Recognize which use cases will encourage early adoption and usage; and**
- **Identify new use cases based on a deep knowledge of the customer's evolving needs.**

This intense scrutiny of the customer's business puts sales reps in a position to build a partnership with customers where each side benefits from the other's success. Customers are aware that sales reps are incentivized to help them realize value, and this synergistic relationship often leads to a deeper level of trust and appreciation.

Here are four things to consider when managing the shift to consumption and transforming sales reps into customer advocates:

1. **Deliver education and enablement.** Consumption pricing is still a relatively new concept. Your sales reps may be in the dark about what it means, what's required from them, and how to perform their job to maximize outcomes. It's important to deliver resources that provide clear guidance and set sales reps up for success.

   Best practice: Create or update your sales onboarding, training, and enablement assets as soon as you start planning for consumption pricing. Articulate the benefits of consumption and how sales reps can best advocate for it and work with customers to deliver value.

2. **Provide data and reporting.** Not only do sales reps need proper training and enablement, but they also require access to data-driven insights about their customers. This knowledge enables sales reps to focus their efforts on opportunities where their customers can derive more value, and thus increase their usage of the product.

Best practice: Make customer-level reporting available to sales reps in an understandable and actionable manner. Empower sales reps to dive into the details and know exactly how customer accounts are consuming, who or what is driving consumption, and what use cases look like.

3. **Match sales talent to customer needs.** Sales reps have different strengths: some are more suited to working in greenfield territories and closing new deals, while others are better at working with customers to dig into challenges and uncover use cases. Sales managers play an instrumental role in identifying and assigning the right talent for the various customer stages and territories.

   Best practice: Introduce territory profiles and tailor sales teams to what's required for a particular region and its accounts. Give sales managers the flexibility to assign or hire sales reps to match the territory. Weight each rep's plan between bookings and consumption, based on skill sets and the territory type (greenfield vs. mature).

4. **Infuse customer success into company culture.** Consumption changes the way organizations think about customers, how accounts grow, and what will lead to financial success. Each customer is unique and represents an opportunity to discover new use cases (and revenue). Sales reps become customer advocates whose job is to expand consumption and deliver more value to the customer. However, everyone in the company must orient their work around customer use cases to ensure consumption increases and value is delivered.

   Best practice: Promote "customer success" as a company-wide initiative, not as a separate function or team. Enable sales reps to become the guardians of the entire customer lifecycle and relationship. Adopt a customer-first attitude across the entire organization to align all efforts in support of customer needs.

COMPENSATION STRUCTURE THAT REFLECTS THE NEW ROLE FOR SALES REPS

Compensation should be based on the value customers realize through using the solution and the active role that sales reps play in that discovery. The measurement, of course, is customer consumption. The overall incentive structure should reward sales reps who recognize their new role and act as long-term customer advocates for value.

Keep in mind that there is a certain amount of inertia contained in consumption. Even when customers start out strong, usage may flatten; you must build upon usage over time if you want to gain sustainable momentum and growth. Sales reps are your defense against slowdowns, so it behooves you to incentivize them to address slowdowns immediately, work with the customer to find new use cases, and get usage patterns back on an upward trajectory.

In addition, it's important to set quota appropriately and articulate clearly how much each salesperson holds and must accomplish for the year (and what exactly they get paid on).

Here are seven considerations that will help you design a compensation structure where incentives and quota for sales reps line up with customer consumption and value:

1. **Align compensation plan with product and sales strategy.** Depending on your target customer segments and user onboarding experience, you may have a "sales-led" or "product-led" growth model (or some mix of both). Product-led usually begins with on-demand accounts where users start using the solution on their own. Engagement with a sales rep happens once a pattern of strong consumption has been demonstrated and conversion to a committed contract makes sense. Compensation should align primarily to a bookings component since customers already use the product.

   In contrast, sales-led interactions take place up front and generally with larger enterprise prospects. Consumption usually begins after a contract is negotiated and often after a migration takes place, which means compensation should include a consumption component.

2. **Address primary measures in the compensation plan.** You must align company strategic objectives, value delivered to customers, and compensation plans. That starts with clarifying how sales reps will be paid on consumption relative to your overall business. Sales reps must understand their goals for driving customer consumption and how these objectives tie to the primary measure of the compensation plan.

3. **Define excellence.** Sales reps must understand exactly what excellence looks like and how it will be rewarded in a consumption-based model. For leadership, this means agreeing upon what multiple of the target incentive you want to pay when sales reps meet that excellence point. Excellence should also drive decisions when setting compensation rate tables. Unfortunately, industry-standard breakpoints and excellence points don't exist yet for consumption-based models. It's simply too new, which is why this undertaking should be viewed as an iterative process that involves trial and error.

4. **Determine plan mechanics and rate tables.** Consumption behaves differently than other pricing models. As a result, bookings rate tables do not translate directly. Once again, you must determine what makes sense for your business within the parameters of consumption. That means understanding account performance and which situations will equate to an accelerated payout. These calculations require data and take time. After all, it's challenging to set an effective acceleration table if you don't know what your bell curve (distribution of actual performance) looks like. Rate tables represent another area for continuous refinement.

5. **Use revenue forecasting to facilitate quota setting.** The revenue plan at the company level must flow down through all of sales. Consequently, effective incentive compensation must align with revenue and bookings, and the quota held by the field sales team must align with the forecast and bookings plan. The foundation for setting quota starts with understanding the outlook for every existing customer and determining how new customers will layer on top of it. Make sure to incorporate knowledge of the accounts into quota setting and empower sales managers to produce the final quota by using the company forecast and regional targets alongside account-level forecasts.

6. **Set achievable expectations and enable the field.** Sales reps have a natural inclination toward exceeding goals and surpassing targets. However, it can be challenging for sales reps to overachieve with consumption-based planning, which should factor in the time required to get new customers up and running, as well as an element of inertia. Sales reps need to feel like they can influence consumption, which requires building that capability into sales methodology, account plans, and customer quarterly business reviews (QBRs). There's also a risk that consumption-based commission plans may be viewed as an annuity, which means sales leaders need to keep reps motivated and to bring in the planned revenue. In the end, growth in consumption leads to new bookings, not vice versa.

7. **Invest in instrumentation and provide data visibility.** To implement a consumption-based pricing model, you must have infrastructure and tooling to monitor consumption by customer. Usage data, coupled with territory data across all teams, enables everyone to be paid accurately, which is really important for encouraging sales reps to get on board with consumption.

MODERNIZING YOUR SALES PROCESS: FIVE TAKEAWAYS

1.

Consumption requires customer-first thinking. Align your sales team to the way the customer derives value from your product.

2.

Sales reps are customer advocates and must be active in the entire customer lifecycle. Customer success is everyone's responsibility.

3.

Data and reporting are critical for sales reps to do their jobs and for leadership to design a compensation structure that matches the nature of consumption.

4.

Continuous refinement is a must-have for compensation plans, quota setting, forecasting, and defining excellence. Set expectations appropriately and iterate as needed.

5.

Empower sales reps and sales managers to inject on-the-ground knowledge into customer forecasts and quotas. Don't rely purely on data.

RETHINK YOUR REVENUE PLAYBOOK

Traditional seat-based subscriptions are much more predictable than consumption-based business models. No surprise there. Customer consumption will always be a variable input. That's why you need to reinvent the way you think about revenue to succeed with usage-based pricing.

CONSUMPTION MODEL LEARNINGS

With consumption, Financial Planning & Analysis (FP&A) teams must include multiple factors in revenue forecasting, ranging from the impact of factors such as seasonality, to the potential for customer onboarding to scale at a different rate than expected. And that's not even taking into account the broader economic and geopolitical environments.

Here are some consumption model learnings to heed so you can better plan for financial variability (and be aware of your potential blind spots):

- **New customers' usage may vary wildly.** Adoption of your solution depends on many technical and organizational factors that may be out of your control. The sales rep should be tracking these factors and working with the customer to smooth out this process, but it's smart to assume a large degree of variation in the early days.
- **Customer usage does not follow a straight line.** Every customer is unique, which means each customer will engage with your solution in a different way. This variability is seen in everything from ramp times to usage patterns. Even customers in the same industry with similar sizes, use cases, and technology stacks may consume in entirely different ways.
- **Systematic and unsystematic factors drive usage trends.** It's worth repeating: usage is a variable input, which means usage trends are going to be impacted by some things you can predict with data and some factors that are less foreseeable. You need to account for environmental changes, upcoming product improvements, and on-the-ground information about anticipated shifts in customer behavior that may not be evident in the data-driven usage history.
- **Contract sizing is an art, not a science.** You should use historical data and insights to inform contract sizing, but it's important to remember that this data is only one input. Solicit input from sales reps and sales leaders to adjust sizing based on the unique aspects of each customer. Depending on the product, front-end sales engineers will be especially instrumental in helping customers size their current and future usage.
- **Increased efficiencies and product optimizations may offset increases in customer usage.** You have an obligation to continuously optimize your technology—customers expect no less. While it may sound counterintuitive at first, product improvements will likely have a negative impact on revenue as customers derive added benefit from your ongoing R&D. This may result in a short-term drop in customer credit consumption, even as customer usage stays the same or increases. Plan for this future variability and make ongoing adjustments to your forecasts. Be sure to keep your pricing metric and discounting practices in check, and ensure that your sales team is fluid in these benefits as part of the value-sale process.

FINANCIAL METRICS

As more companies adopt consumption-based pricing models, several KPIs have surfaced that investors want to track as key value drivers. As you evaluate a usage-based pricing metric, be prepared to retool your back-end systems to manage and report on these KPIs.

Here are five financial metrics that you should focus on, all of which speak to the growth rate and value creation of your company:

1. **Revenue.** With consumption, revenue is only recognized when customers use your product, as evidenced by how they consume your value metric. For example, if you charge by SMS message and a customer executes 10 messages, then revenue is recognized at the rate of (10) multiplied by your "per SMS" value metric. Intuitively, the more a customer consumes, the more revenue you recognize. Monitoring, tracking, and managing usage is critical to executing your consumption model. The ability to forecast future usage is a valuable KPI you'll want at your fingertips on a daily basis, as it enables you to constantly evaluate usage and discover any early warning signs of under- or over-usage. This forecast also guides your funders and management team on the early growth trajectory of the business, informs strategies on where to go next, and helps you continue to innovate.

2. **Remaining performance obligation (RPO).** RPO is an accounting metric that measures the amount of contractual (committed) revenue that a SaaS provider is obligated to deliver and customers are obligated to consume in the future. Although it is sometimes viewed as a proxy for future revenue (and it certainly is a big component), RPO does not capture the actual future expected or forecasted usage.

   In a consumption contract, you and your customer estimate together what usage may look like in the future. Of course, actual usage will vary widely depending on a variety of factors that are harder to predict, such as a customer's use case growth and dynamics. However, RPO is disclosed as part of the basic financial statement disclosures, and investors will look at it as a leading indicator of growth.

3. **Cash flows.** The largest contribution to your cash flow profile will be how you decide to bill your usage metric. "Billings"represent how you expect a customer to pay you for your deliverables. In the previous SMS example, assume you agree with the customer on a three-year contract with 1,000 SMS messages a year. How you bill that metric becomes a negotiation. If you agree on annual in-advance billing, then you bill the full year at the beginning of the contract and on each one-year anniversary date, giving you an optimal cash flow profile. As the customer uses the product, they "draw down" against 1,000 SMS messages per year. To collect cash up front, you must have a billing engine that is married to product usage, which allows you to monitor in real time the amount billed is drawing down and when your sales team should begin to socialize a renewal.

   Some customers may want to align payment with usage patterns and pay on a monthly basis. It's important to recognize that this billing strategy has a negative cash flow impact, so you should price accordingly. Further, you must have the metering and billing capabilities to accommodate this level and frequency of billing.

4. **Net dollar retention (NDR).** Sometimes referred to as net revenue retention (NRR), this metric looks at what percent of the business has been retained and expanded. With consumption, it speaks to whether customers are receiving value and continuing to use the solution. NDR is calculated with a simple ratio of [revenue in the current 12 months] divided by [revenue in the prior 12 months].

5. **Active customer accounts.** Growth in the number of active customers, coupled with expansion of your NDR, represents a powerful combination for your valuation. Consumption allows customers to increase or decrease their use of the solution without requiring changes to their contract. That's why growth and diversity in your active account base, coupled with a predictable and growing NDR, will give you confidence in the health of your business and the likelihood of achieving your forecasts.

While spreadsheets might work for managing subscription metrics, they cannot handle the variable nature of consumption pricing. To run a consumption pricing model and deliver up-to-date forecasts on a daily basis, organizations need to invest in data science, systems, and people.

- **Data science.** Consumption forecasting requires you to predict customer usage patterns. To manage these types of complex financial calculations, you need data science powered by real-time data. Data scientists should be hired and embedded in your finance team as functional experts. They are instrumental for building dynamic models that deliver immediate feedback to enrich your forecasts. By modeling data over time and continuously updating models, data scientists can deliver crucial input on how revenue is tracking and evolving, which allows you to make real-time adjustments and be proactive. They also empower you to understand customer-level forecasting on a daily basis. You can track margins and deliver real-time insights into customer data around revenue and cost-of-delivery. All of this helps inject predictability into your financial metrics.
- **Systems and tooling.** Transparency is the hallmark of a consumption-based pricing model. That makes systems and technology one of the biggest challenges you face when implementing consumption-based pricing. Metering and billing capabilities must be sophisticated enough to handle the operational complexities associated with consumption pricing and to track usage at the individual customer level.

  A modern data platform provides a central source of truth for tracking data from divergent systems that inform billing. Customers must be able to view usage, understand the bill, and trust that everything is accurate. You'll need this same transparency and accuracy of usage data to correctly compensate your sales reps.
- **Collaboration.** Under a consumption model, it's crucial to develop and maintain a close cross-functional relationship between product, sales, finance, and operations. These teams directly impact the product, how it performs, how customers consume it, and what new features and functionality need to be considered. To promote alignment, maintain a set of data models related to bookings, revenue, costs, and other financial data sets that other teams can consume. This shared analysis enables everyone to work from the same assumptions and speak a common language, which results in deeper collaboration and better decision-making.

RETHINKING REVENUE: FIVE TAKEAWAYS

1.
When forecasting revenue, remember that consumption is rife with variability and requires both quantitative data and qualitative inputs to account for unique customer behavior.

2.
The five metrics commonly used with consumption-based pricing are revenue, RPOs, cash flow, NDR, and active customer accounts.

3.
Data scientists are a critical addition to any finance team if you want to forecast revenue and report financial metrics with speed and accuracy.

4.
Metering and billing capabilities represent a large hurdle you must clear in order to implement a consumption-based pricing model.

5.
Clear and consistent cross-team collaboration and communication is required to adjust forecasts in response to product and performance improvements.

HELP CUSTOMERS PREDICT AND OPTIMIZE SPEND

Cost control is one of the customer a dvantages built into consumption. Customers can flex demand as required by their business needs and can do so without paying for an oversized solution to meet occasional peak demand periods.

Customers that work with cloud and data providers already have experience with the consumption-based model; however, it may be their first time working with a SaaS solution provider that leverages this pricing strategy. Transparency and pre-planned strategies to address overages will help both customers and providers avoid unpleasant experiences.

DELIVER TRANSPARENCY AROUND COST AND CONSUMPTION

Predictability, visibility, and cost transparency must be the tenets of your consumption model. Customers want to understand how they are using the solution and how credits or dollars are spent relative to their contract. Ideally, customers can view usage in the product, but receiving monthly usage statements may be a more feasible place to start.

If possible, couple reporting with some level of monitoring and alerting to enable customers to manage costs in real time. Customers want to know if they are consuming at a faster rate than expected and if they are close to exceeding their plan.

MANAGE OVERAGES WITH CREATIVITY

When customers exceed plans, you should have a thoughtful strategy in place around how to handle overages. Remember: customers exceed their plans because they have found a lot of value in your solution. This behavior should be encouraged and supported, while also helping your customer better scope and realistically plan their usage.

As such, your approach should support the best customer experience, which may require some creativity. Here are four ideas for handling overages:

- **Maintain the customer's discount during the overage period.** This option is customer-centric and rewards successful adoption and usage. However, you need to balance this strategy against the fact that it could encourage customers to underestimate contracts upfront, knowing they can scale without risk.
- **Use a pay-as-you-go rate for overage.** From a monetization perspective, you achieve the best outcomes with this option, and it should motivate customers to choose a larger commitment in their next contract. It also gives your sales team a chance to engage the customer around additional use cases to consider when creating a new contract.
- **Provide an allowance period before charging for overage.** Consumption is designed to manage spikes without requiring huge commitments. This option is one way to demonstrate that benefit by giving customers some clearance before charging overage.
- **Ask the customer what overage practice works best.** During a contract discussion, imagine how empowering it is if the customer is given the ability to determine which overage option would work best, based on budget and situation. This strategy sets the stage for a stronger relationship between you and the customer and adheres nicely to the customer-first attitude.

HELP CUSTOMERS OPTIMIZE SPEND: THREE TAKEAWAYS

1. Aim to provide customers with predictability, visibility, and cost transparency.

2. Customers need visibility into their product usage, which should be coupled with monitoring and alerting to avoid surprises or unnecessary overages.

3. Overages happen. Be creative in how you handle them to encourage more consumption, rather than punishing customers financially.

LEVERAGE DATA

The number-one requirement for a consumption-based business model is accessible data. Otherwise, it is impossible to understand your business, test your value metric, assess and compensate sales reps, deliver financial metrics, and track customer usage. In short, everything you need to do to run your business is tied directly to data.

That's why you must put modern systems in place, and ensure data is held in a centralized location that provides a single source of truth. Any isolated business systems or Excel spreadsheets become data silos, which prohibit information from being shared in real time.

Unified data is the foundation for robust analytics and data science models that provide timely business insights. Consumption-based pricing strategies require a holistic view of your business, and that view must be updated on a daily basis. In short, data is your keystone for success when implementing a consumption pricing model, and you can only use it to your greatest advantage when you have unfettered access, a centralized source for truth, and near-limitless scalability and flexibility.

FIVE QUESTIONS TO ASK ABOUT YOUR DATA

- [ ] Can you easily access and use all relevant data to deliver a holistic understanding and daily view "of your business?
- [ ] Can you capture the right data to test your value metric and assess its strength over time?
- [ ] Does your data demonstrate how well sales reps are performing and what adjustments might be needed to your compensation structure?
- [ ] Do data scientists have access to a centralized repository so they can build data models that deliver daily insights into your financial metrics?
- [ ] Can you track and share consumption data with customers and empower them to understand and optimize their spend?

HOW SNOWFLAKE HELPS CONSUMPTION-BASED APPS THRIVE

You've learned that leveraging data is key to consumption-based models' success. This requires a data platform that can scale to meet customer demands; support critical operations such as accurate usage tracking, visibility into the costs of providing services, and data sharing; and provide an excellent foundation for building apps.

Snowflake meets those requirements with a near-zero-maintenance platform that delivers near-limitless scale and concurrency so you can confidently offer the scale-on-demand capabilities that anchor usage-based models. Snowflake also integrates data across multiple clouds and regions to give users a seamless experience. And when building apps on Snowflake, you can leverage Snowflake's own consumption-based pricing model and billing infrastructure.

Here's a closer look at several Snowflake features that support consumption-based applications.

SCALABILITY

Snowflake's unique architecture separates storage and compute, enabling SaaS providers to easily provision highly available and scalable dedicated or shared resources on demand. The multi-cluster shared data architecture with separate compute clusters (virtual warehouses) enables seamless scaling of both storage and compute resources.

Virtual warehouses can either be standard or multi-cluster warehouses. Standard warehouses consist of a fixed number of compute nodes based on warehouse size. Multi-cluster warehouses can dynamically provision additional clusters as needed. Snowflake automatically suspends resources when they are not utilized. Data is persisted on cloud storage (S3, Azure Blob, or GCS), which can be scaled to virtually any capacity.

ACCOUNT MANAGEMENT

Applications need a robust set of account management features to handle all the tasks involved in onboarding new customers, accurately reporting consumption (whether hourly, daily, monthly or another metric), and monitoring the services offered.

The Organization feature in Snowflake enables providers to manage multiple accounts from a single interface, create new accounts themselves, and view usage for multiple accounts in a unified view. Typical account model options include one of the following patterns:

- **Separate account for each business unit.** Dedicated compute and database objects enable easy and exact billing per customer.

- **Single account with dedicated resources.**
  - Dedicated compute (virtual warehouses) and *dedicated* database objects: Dedicated compute nodes for each customer allow data providers to accurately measure usage and scale horizontally as needed. Similarly, with dedicated database objects, it is easy to measure storage usage and understand consumption trends.
  - Dedicated compute (virtual warehouses) and *shared* database objects: In this model, storage usage will need to be allocated to customers based on customer-specific data volumes. Snowflake's object tagging and storage metrics at table level allow customers to allocate the storage costs appropriately. Although maintenance of database objects is easier with this approach, dedicated storage has the benefit of reducing overall complexity.
- **Single account with shared resources.** Allocating usage for shared resources to different customers using traditional methods can be difficult. With Snowflake object tagging and query tagging features, you can easily allocate usage with a simple ratio to report window function.

SERVERLESS CAPABILITIES

Snowflake's serverless capabilities enable data providers to run tasks on behalf of their customers in a serverless way. Tag the tasks that include customer information, and you can easily share usage information. Because the workload is fully dedicated, tasks will perform better and be more efficient—a big plus for providers offering usage-based pricing to their customers.

COST MANAGEMENT, MONITORING, AND TRANSPARENCY

Resource monitors and alerts provide an easy way to manage resources and suspend when certain thresholds are exceeded. Snowflake's Snowsight admin dashboard is a very useful tool for monitoring and understanding usage; it provides at-a-glance information about organizations, consumption, storage, and more (see Figure 1).

Snowflake also provides summary and detailed usage metrics for many services used so you can understand the spend and monitor and manage billings. The Snowflake database consists of Organization_Usage, Account_Usage, Reader_Account_Usage, and Data_Sharing_Usage.

Organization_Usage views provide summary usage data for all the accounts in an organization.

Account_Usage views provide information specific to a particular account, including:

- Credits consumed by virtual warehouses
- Storage costs
- Credits consumed by other Snowflake services such as Snowpipe, Automatic Clustering, materialized views, search optimization, and serverless tasks
- History of all the queries with key performance metrics (such as execution time, bytes scanned, bytes spilled to remote storage, and query load percent)
- Access history and login history

Figure 1: Snowsight, the Snowflake web interface, includes dashboards to help visualize data critical to consumption-based pricing models.

Once query tagging and object tagging is in place, you can build an accurate chargeback model easily by allocating credits consumed by shared resources. Applications and providers can expose the chargeback data to each of their customers in a separate database using private, secure data sharing similar to Account_Usage. If your data consumers are also Snowflake customers, you can use Snowflake Secure Data Sharing to share usage data immediately from its original location, without copying or moving the data (see Figure 2). For data consumers that are not Snowflake customers, you can leverage reader accounts to provide similarly straightforward access to usage data.

Snowflake Data Marketplace offers another way to easily share data and leverage Snowflake's built-in pricing models and billing infrastructure to create new product lines with consumption-based pricing.

Data governance and security

Snowflake provides robust security features that allow developers to incorporate governance every step of the way. For example, Snowflake provides a rich set of role-based access controls and dynamic data masking features, such as row access policies and column-level masking, to ensure that only authorized users can access sensitive data. Powerful data classification features and tagging make it easy to track and categorize sensitive data.

These features allow SaaS providers to create charge-back views and share them with customers using appropriate row-level security, so customers see only their data—an elegant solution that helps increase customer trust.

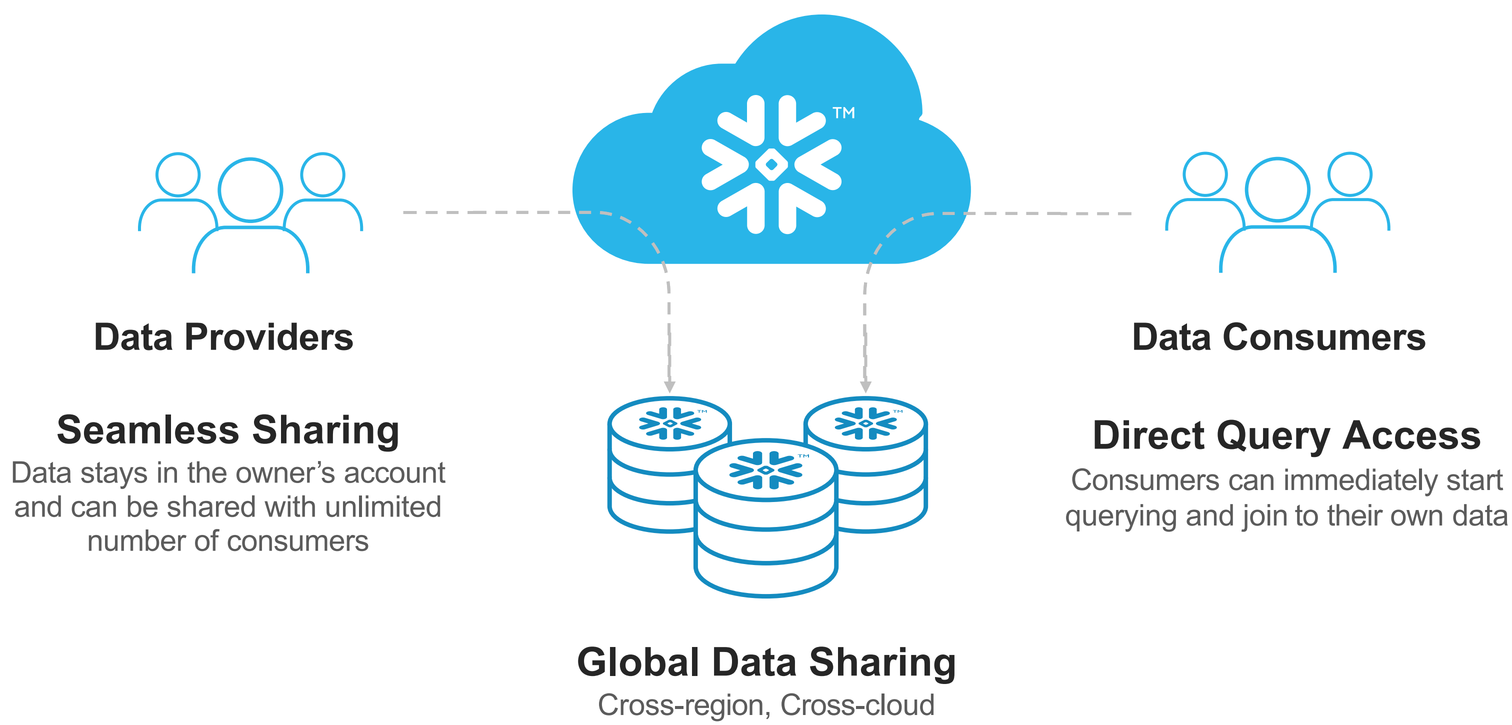


Figure 2: Data providers and consumers both get up-to-date, transparent access to usage data through Snowflake—without moving the data itself.

CONSUMPTION PRICING OPENS UP COUNTLESS POSSIBILITIES

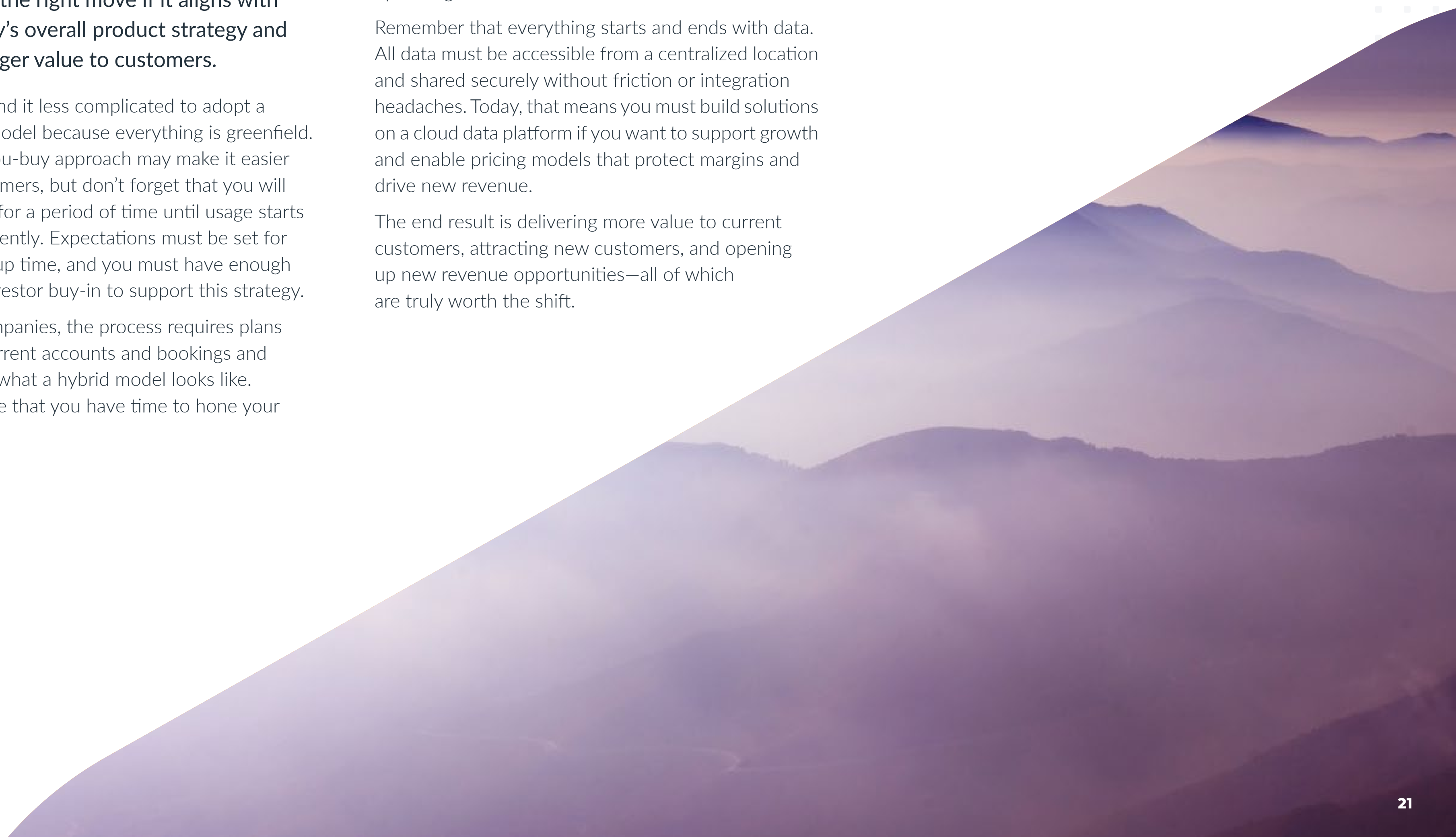
No one will tell you that adopting or shifting to a consumption-based pricing model is easy. However, it's the right move if it aligns with your company's overall product strategy and delivers stronger value to customers.

Startups may find it less complicated to adopt a consumption model because everything is greenfield. A try-before-you-buy approach may make it easier to attract customers, but don't forget that you will chase revenue for a period of time until usage starts to grow consistently. Expectations must be set for a longer ramp-up time, and you must have enough funding and investor buy-in to support this strategy.

For mature companies, the process requires plans for handling current accounts and bookings and understanding what a hybrid model looks like. The benefits are that you have time to hone your consumption model to suit your business and can transition sales and finance teams to this new way of operating over time.

Remember that everything starts and ends with data. All data must be accessible from a centralized location and shared securely without friction or integration headaches. Today, that means you must build solutions on a cloud data platform if you want to support growth and enable pricing models that protect margins and drive new revenue.

The end result is delivering more value to current customers, attracting new customers, and opening up new revenue opportunities—all of which are truly worth the shift.



ABOUT SNOWFLAKE

Snowflake delivers the Data Cloud—a global network where thousands of organizations mobilize data with near-unlimited scale, concurrency, and performance. Inside the Data Cloud, organizations unite their siloed data, easily discover and securely share governed data, and execute diverse analytic workloads. Wherever data or users live, Snowflake delivers a single and seamless experience across multiple public clouds. Snowflake's platform is the engine that powers and provides access to the Data Cloud, creating a solution for data warehousing, data lakes, data engineering, data science, data application development, and data sharing. Join Snowflake customers, partners, and data providers already taking their businesses to new frontiers in the Data Cloud. **Snowflake.com**

CITATIONS

[1] https://f.hubspotusercontent10.net/hubfs/366266/The%20Usage-Based%20Pricing%20Playbook.pdf

[2] https://sapphireventures.com/blog/4-strategies-to-implementing-a-usage-based-pricing-strategy/

[3] https://f.hubspotusercontent10.net/hubfs/366266/The%20Usage-Based%20Pricing%20Playbook.pdf