1 The Rise of Consumption Pricing

As Cloud, SaaS and tech companies seek continued growth in the market, new pricing models have gained traction. One of the most popular pricing models of the past few years is consumption-based pricing. Like subscription models, this structure moves away from the traditional single purchase. Sometimes referred to as usage-based pricing, consumption pricing is unique in that it charges customers per unit of usage, rather than a fixed rate per period. Around **38% of SaaS companies** opt for this model.

Why Consumption Pricing?

The benefit of consumption pricing for certain technologies is the ability to bill customers more accurately in accordance with their own expenses - for example, the model is popular with cloud storage companies, whose overhead costs rise with higher customer usage. It also offers a lower barrier to entry for sales; nearly half of software companies using a consumption model say it has helped them acquire more customers, and two-thirds say it's helping them increase revenue with existing customers. Consumption pricing is associated with some of the fastest-growing SaaS companies of the past few years, including Snowflake, Datadog, Zscaler, and MongoDB.

The consumption model also tends to make sense to the customer, who feels they have more control and transparency in how much they're billed when they see a direct exchange of price per unit. 80% of customers report better alignment with the value they receive, according to Bain & Company research. Consumption pricing also comes with risks. Customers can change their usage habits unexpectedly, making revenue more difficult to predict. Since revenue is realized on a longer timeline, it can also make sales compensation packages more complex to design and fulfill.

The core challenge of a consumption model is driving usage post-sale.

Even for companies who leverage a free trial, commitment and usage will lag without specific value offerings tied to the buyer's desired outcomes. While commitment may be easier to gain on the front end without an upfront price tag, if the goal is to drive usage and growth over time, the negotiation of your value needs to begin early on and be reinforced throughout the entire customer engagement.

2 Driving Success on a Consumption Model

Companies that drive sustained growth with a consumption model do so by achieving three critical levels of alignment:

1. **Internal alignment**
   on a strong value message that resonates with their customers and market, as well as alignment on how the value is communicated so customers follow through on consumption

2. **Cross-functional process alignment**
   on what great execution and collaboration looks like at key touchpoints in the customer lifecycle

3. **Alignment to the buyer**
   past the point of the initial sale, generating explicit agreement on the terms of implementation and maintaining a pulse on changes and pain points as the customer's environment evolves to ensure the solution remains relevant and valuable

These alignment pillars also help to alleviate some of the risks associated with consumption-based pricing. While a sales organization can't control or predict customer consumption behaviors, they can give their account teams the tools and processes to qualify leading indicators of behavior change that could impact revenue. They can enable a high level of transparency between internal teams to ensure that risk factors are addressed as they arise. And they can equip their customer-facing organization with the value-selling fundamentals necessary to drive continued ROI for customers.

3 The Value Message and Consumption

A strong and unified value message across the organization is critical to driving urgent and long-term commitment for your solution on a consumption model. To successfully create value on a consumption model, companies must move away from the traditional win-focused mindset and into an outcome mindset. This shift begins with how leaders communicate priorities; rather than prioritizing the initial commitment, leaders must emphasize and enable the achievement of customer outcomes.

Here's how **Snowflake CRO Chris Degnan**, who helped build the company to more than **$1 billion in consumption revenues**, describes the sales approach that drove their success on an episode of our Revenue Builders podcast.

Degnan describes looking past initial value towards realized value, describing Snowflake as a "business partner" to its clients.

Consider the impact of this mentality on your hiring profiles, and how you can cultivate this value-based approach with your team. This resource may give you some ideas.

A **value framework** is the best way to generate actionable alignment on the use cases for your product - who buys it, why they buy it, why they choose it over other solutions and the verifiable proof - across every customer-facing role.

When a value framework is operationalized with your go-to-market (GTM) team, it enables them to apply those use cases to the customer's specific scenario to deliver value that feels relevant and customized. It's important that this framework is consistently executed by the entire GTM team, rather than just by sales roles, because the onus for driving revenue is shifted to later in the customer lifecycle in the consumption model.

We can picture this as two sales cycles - one to close the deal, and another ongoing cycle to close the consumption. Your implementation teams should be comfortable communicating the value message to the buyer's end users, who may not have been involved in the initial sales cycle, to ensure that consumption is followed through and value is realized.

4 Creating Lifecycle Value

In successful consumption models, the Account Executive, Client Success Manager and Sales Engineers work together to drive value past the initial sale. This operating rhythm can look like:

Account Executive

Executes and shares deep discovery of the customer's pain points and desired outcomes that align with the established use cases of their solution.

Sales Engineer

Helps to identify key features that will hold the most value for the customer, digging deeper on technical pain and building out a demo that positions the key differentiators as core value drivers based on the desired outcomes uncovered by the AE.

Client Success Manager

Leverages discovery from internal partners to align onboarding to buyer goals in a way that drives adoption, setting short-term benchmarks and QBRs to qualify and validate success and monitor account changes that warrant a reassessment of value.

Leadership

Provides a framework for key triggers on how and when information should be shared between internal partners to maintain cross-functional visibility into customer accounts throughout the lifecycle and as it relates to the cross-sell, upsell and renewal strategy.

Implementation is always a critical part of following through on the value of a deal, but never more so than in the consumption model. Ensure your sales team is setting this critical stage up for success. During the sales cycle, sales should involve the customer success team as well as the buyer's implementation owners to start building alignment. Help them construct a change management plan for how the solution will be communicated and prepped within their team, and work together to create an explicit, action-oriented implementation plan that will bridge the gap between the final deal signing and implementation. These steps not only build confidence in your post-sale teams, but help get buy-in from all buyer parties and minimize resistance to the new solution.

In the video to the right, **John McMahon,** co-host of the **Revenue Builders Podcast,** gives some examples of how different roles play into the consumption deal past the initial sale.

With the consumption model, traditional sales elements like the decision criteria, the desired outcomes and the economic buyer don't lose relevance after the initial purchase - in fact, they become even more relevant, and they may change over time. Staying on top of these changing factors requires a commitment to consistent qualification from post-sale account management teams and a focus on continuing to deliver and capture customer value. Leaders should provide a **clear process** for how MEDDICC principles can be applied by post-sale account teams, whether during initial product implementation or ongoing quarterly business reviews. Then, define what qualifies as a renewal risk or expansion opportunity and what action should be taken. Your post-sale teams should be continuously gathering information to ensure the health of consumption accounts.

Consumption models have changed the timeline to value for customers. Rather than value being realized on a multi-year or 12-month contract, value - or indicators of value - must be realized immediately to continue to drive usage and adoption in the short term. To avoid churn, you must be consistently proving your value with a consultative partnership approach to sales and customer success. Check out our full resource on leveraging customer success for growth.

More Technical Sales Resources

ARTICLE

EBOOK

PODCAST

The Right Partner for Consumption Growth

Force Management has worked with high-tech sales organizations for over 20 years, helping them to build a sales discipline that drives results. Our methodologies have resulted in bigger wins, greater quota attainment, more accurate forecasting and higher talent retention for hundreds of clients across industries including Cybersecurity, FinTech, Business Intelligence, and DevOps.

We partner with each sales organization to custom-tailor our signature methodologies to their solutions and GTM strategy, helping them maximize their talent with a repeatable and aligned process that paves the way to growth.

START A CONVERSATION

"The [Force Management] process ensures that everybody is moving in the same fashion and that our alignment with customers is repeatable and scalable."
- Craig Clay, President of Global Capital Markets, DFIN

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