

This sheet is a handout material from Udemy course:

[Essentials of Software-as-a-Service \(SaaS\) Business.](#)

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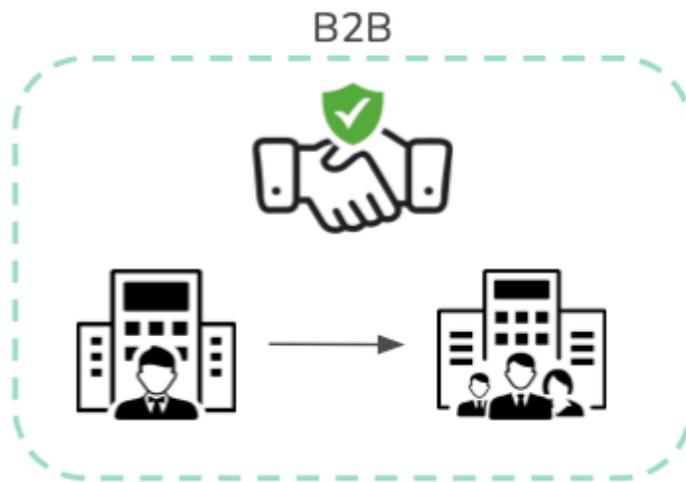
3.2 B2B and B2C Markets

In the previous lecture, we learned about the fundamental aspects of SaaS pricing. Building on that foundation, we will turn our focus to a critical segmentation of the market that significantly influences how pricing is crafted and implemented. We will explore the distinct characteristics of Business-to-Business (B2B) and Business-to-Consumer (B2C) markets.



Each of these segments has unique demands and expectations that necessitate tailored approaches to pricing. If we understand the specific characteristics and customer expectations of each market, we can tailor our pricing strategy accordingly. First, we will examine the B2B market:

B2B (Business-to-Business) Market



- Businesses, governments, or non-profits
- Complex decision-making process
- Value-Focused Pricing
- Extended Sales Cycle



- *Businesses, governments, or non-profits*

B2B customers are primarily organizations, which include businesses of all sizes, government agencies, and non-profit organizations. Unlike individual consumers, these entities typically make purchases to fulfill strategic business needs, improve operational efficiency, or achieve specific organizational goals.

- *Complex decision-making process*

The decision-making process in B2B transactions is complex, and often involves multiple stakeholders. These can include executives, managers, end-users, or technical experts.

Consequently, reaching a decision usually involves a prolonged series of evaluations and approvals, making the process extensively time-consuming.

- *Value-Focused Pricing*

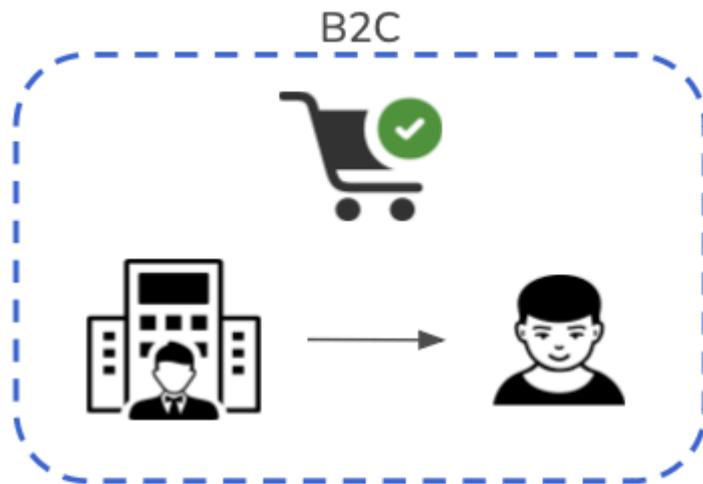
In B2B transactions, pricing strategies extend beyond mere cost considerations — customers prioritize the potential return on investment (ROI) that a product or service offers. ROI is a key metric that measures the profitability of an investment relative to its cost and it helps businesses determine the value they can expect from their purchase. It assesses how effectively a product or service can enhance productivity, reduce costs, or increase revenue. For instance, a software solution that automates repetitive tasks can save time and labor costs, thereby offering a high ROI. Consequently, pricing in the B2B sector is often flexible and can be negotiated based on factors like the quantity purchased, contract terms, and additional services provided.

- *Extended Sales Cycle*

And finally, in B2B sales, the process takes longer due to factors like product complexity, impact on customer operations, and the size of the investment. During this extended sales cycle, various strategies come into play. These strategies focus on building strong relationships with potential clients, providing ongoing education about the product or service, and demonstrating its long-term value.

Well-known SaaS providers in the B2B market are for instance Salesforce, Workday, Slack, HubSpot, Zendesk.

B2C (Business-to-Consumer) Market



- Individual Consumers
- Emotionally Driven Purchases
- Standardized Pricing
- Shorter Sales Cycles

 **Evernote** **NETFLIX**

 **Spotify**  **duolingo**

- *Individual Consumers*

Next we have a Business-to-Customer realm. In this market, the customers are individual consumers making purchases primarily for personal use. These decisions are often driven by their individual preferences, desires, or lifestyle needs. Unlike B2B markets, the buying process in B2C is generally straightforward. The challenge lies in understanding and appealing to the emotional and psychological triggers of a diverse consumer base.

- *Emotionally Driven Purchases*

Purchases in the B2C sector are more likely to be influenced by emotions, brand loyalty, or spontaneous decisions. Effective B2C marketing strategies leverage compelling storytelling, attractive branding, and promotional tactics that resonate on an emotional level. These strategies are designed to evoke feelings that motivate purchase behaviors, such as happiness, security, or status, making the consumer feel personally connected to the brand.

- *Standardized Pricing*

Pricing in the B2C market is often less flexible than in B2B. Prices must be competitive and are usually set based on market standards and consumer price sensitivity. B2C companies often use psychological pricing techniques, such as charm pricing (ending prices with .99), to make products appear cheaper. Although there's less room for negotiation, frequent promotions, discounts, and loyalty programs are common to attract and retain customers.

- *Shorter Sales Cycles*

Lastly, the sales cycle in the B2C market is typically much shorter than in B2B. The focus is on mass marketing strategies aimed at generating quick sales and maintaining high transaction volumes. The challenge for B2C companies is to efficiently manage large volumes of customer interactions and transactions, often requiring robust e-commerce systems and effective customer service to handle inquiries and issues promptly.

The examples of SaaS providers in the B2C market could be Netflix, Spotify, Dropbox, Duolingo and Evernote.

Now that we have a clear understanding of the differences between B2B and B2C markets, we are better equipped to select pricing strategies that align with these characteristics. In the next lecture, we will look at four key pricing strategies—Penetration, Skimming, Value-Based, and Competitive Pricing.