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# DEVELOPING A SUCCESSFUL PRICING STRATEGY OF IT SERVICES COMPANY<sup>1</sup>

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## INTRODUCTION

Mark Kowalski, the proprietor of EduABC, a small IT services firm that specializes in serving private education centers in Poland, had a chance to reflect on the previous year's accomplishments.

On March 20th 2023 he sat in their office, gazing out the window at the awakening spring, he couldn't help but feel a sense of renewal. Despite the steady progress and the positive feedback from satisfied clients, Mark knew that he couldn't afford to rest on his laurels. As he reviewed his notes he understood the need to maintain a competitive pricing structure to remain successful in the industry.

Mark realized that the pricing change implemented in 2021 was successful, but a small price increase in 2022 failed to account for inflation and increased operating costs. It led him to make the decision to invest time into researching customer structure and his competitors pricing tactics. He wants to decide on a new pricing strategy that will be beneficial for his business, while also being attractive to customers.

## COMPANY BACKGROUND

Since the establishment of EduABC, Mark has been feeling the weight of the world on his shoulders. The past seven years had been a rollercoaster ride of highs and lows for his small software as a service (SaaS) company.

The first stage was the most challenging, marked by the arduous task of breaking into the market. Despite the initial hurdles, Mark managed to assemble a team of passionate and dedicated professionals who believed in development of the product. They were able to acquire first clients at a relatively low cost, which helped sustain the business until the pandemic hit.

The outbreak of COVID-19 triggered a massive drop in the number of clients as educational institutions shut down their activities, presenting a new challenge for the company. However, they were

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<sup>1</sup>Rafał Rydzewski (University of Economics in Katowice, Poland) wrote this case study solely to provide education material for class discussion. All information about the company presented in the case has been disguised to protect its confidentiality. However, every effort has been made to ensure that the data contained reflects the real in-field experience of the decision maker. The publication may not be copied, digitized, or reproduced in any other way than is specified in the project SPINAKER - Intensive International Training Programmes financed by the Polish National Agency for Academic Exchange (PPI/SPI/2020/1/00013/U/00001).

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determined to weather the storm. Fortunately, EduABC did not incur significant costs during this period and existing customers remained loyal, refusing to switch to the competition despite tempting discounts. They too wanted to survive.

Just as things began to look up and Mark's clients regained their participants and private schools became more interested in their product a new challenge presented itself - inflation. The surge in prices for essential goods and services had a direct impact on EduABC's operations.

### **Product**

Mark Kowalski is proud of EduABC, a comprehensive tool that makes activities of private education centers efficient and convenient. He had worked hard to lead the development of the app over the years, and he knew that it was superior to anything offered by his competitors.

Mark looked at his service offering with enthusiasm. It provides comprehensive support for managing private schools. His clients can create class schedules, send messages to participants, allow online sign-ups and payment and many more. The most popular features of the service were those related to organized finances and automatic calculation of educators salaries – he noted as he reviewed the usage data.

Mark was proud to offer this service to his clients, knowing that it would allow them to focus on their core business of conducting classes and achieving better results. However, the competition offer similar solutions with less effort put in and, as a result, lower quality, often at the expense of simplicity and intuitive user experience.

### **Industry overview and competition**

Mark sat back in his chair, pondering whether his current pricing strategy was holding EduABC back. Inflation was already taking hold, and he knew it was essential to review his competitors' offerings. Despite his initial reluctance, he was prepared to revolutionize the way EduABC set its prices to ensure that the company set the standard. *"Maybe instead of just focusing on tweaking our current pricing, we should take a step back and reevaluate our entire pricing strategy as a whole"* Mark said, pondering the idea.

He was willing to invest time and resources into gathering market intelligence, conducting surveys, and listening to customer feedback to fine-tune his approach. He was confident that with the right mindset and a bit of creativity, he could develop a pricing strategy that would give EduABC an edge over its competitors. However, as a small company, Mark knew that he couldn't afford the same level of sophisticated analysis that industry giants like Spotify could. Despite his eagerness to take bold steps, he needed to be realistic about the resources available to him. The company did not yet have the appropriate controlling tools to measure their progress as accurately as he would have liked. He knew that he needed to make the most out of the limited data at his disposal.

Mark knew that the market for SaaS solutions was rapidly growing, and that the pandemic had only accelerated this trend. With the global SaaS market projected to reach nearly \$900 billion by 2029

(CAGR 19.7%)<sup>2</sup>, there was almost no doubt that the demand for cloud-based solutions would continue to rise. He was particularly excited about the opportunities in the education sector, which had been an important market for EduABC since its inception. Mark also keeps in mind the potential impact of the ongoing Russia-Ukraine war on the global economy and, in turn, on his small business. He had also read a report that predicted a decline in the projected growth rate for the global SaaS market in 2023. The report cited the war as a major cause of disruption to the chances of a global economic recovery from the COVID-19 pandemic, at least in the short term. The economic sanctions imposed on multiple countries, as well as other factors, were causing inflation across goods and services, affecting many markets, including the SaaS market.<sup>3</sup>

Nevertheless, Mark believed that his firm was well-positioned to capitalize on market trend. Especially thanks to its reputation for delivering high-quality solutions to educational institutions. He stated aloud, *"People have become accustomed to using digital solutions, it's convenient. Schools are starting to adopt it! There will still be a growing need for reliable and affordable SaaS platforms."* Mark expects to reach 2000 clients within the current year.

### **Future plans**

Despite the challenges of the past years, EduABC team is determined to keep pushing forward and expanding his company's offerings. They are motivated to seek out new opportunities for expansion.

Mark had his sights set on the international market, and looked for chances to explore opportunities within the European Union. He knew that expanding into new territories would be a major undertaking. One potential strategy that Mark was exploring involved providing accounting services to small businesses, recognizing that many of his customers were in need of such support. Additionally, he was considering the launch of a "light" package for clients who only required occasional access to the company's services. Finally, Mark was excited about the prospect of expanding EduABC's target customer base beyond the education sector. He saw opportunities in a variety of other industries, and was eager to explore these possibilities in the months and years ahead.

Surrounded by notes, plans, and ideas at his desk, he felt prepared to tackle the upcoming challenges and lead EduABC to be the best it could be. As Mark reminded himself of the old saying, "How do you eat an elephant? One bite at a time." He felt that the new pricing strategy was the first step towards achieving his plans.

## **PAST PRICE LIST CHANGES**

As Mark was going through some notes, he came across the history of previous price changes. The schools operate mostly in connection with the school year running from September to June, which is why the topic of a new pricing strategy returns to the company every spring. This makes it easier to inform existing clients about changes before the season and acquire new ones for the new pricing plan.

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<sup>2</sup> [Software as a Service \(SaaS\) Market Size, Share & COVID-19 Impact Analysis - Fortune Business Insights - published on February 2023](#)

<sup>3</sup> [Software as a service \(SaaS\) Global Market Report 2023 - The Business Research Company - published on February 2023](#)

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In spring 2021 the impact of covid was not without significance. Some of Mark's clients had scaled back their use of the company's services, and the idea of raising prices in such an uncertain climate was risky, to say the least. The team decided to proceed with their price list after conducting a review of their existing customers. With only a small number of clients at the time, they believed that a price increase could be weathered, knowing that those who valued their services would stay on. Looking back, however, this approach was not the most professional and something Mark is not particularly proud of.

In spring 2022 with an increasing number of customers using their services, the company decided to raise their prices by a 7%, which reflects less than the price index increase in service prices according to available data. It was the only thing they could do regarding the aggressive promotions of the competition. Unfortunately, this increase did not fully offset the impact of inflation within past 12 months. Mark remembers one of last week emails from his employee that between that decision and today's situation the acquisition costs per customer changed from PLN 850 to PLN 1 300.

## CONCLUSIONS

Mark sat in his office on March 20th 2023, contemplating the need for a fresh approach to EduABC's pricing strategy. He couldn't bear to look at the current one, and to be honest, even with the changes it was similar in its idea to his competitors. After all the hardship of past years, it seemed like competitors were copying each other's strategies for setting price lists. Mark longed for something fresh and exciting to set his own company apart from the rest and the current situation gives him a plenty of room for innovation. He knew that coming up with something new and fresh was a challenging task. He also understood that there was a risk involved in changing the pricing structure, as some customers might not be willing to accept it.

As the spring season awakened outside his office window he decided to invest time into researching customer structure and his competitors pricing tactics. With determination in his heart he sent an email to his employee, requesting an updated breakdown of clients according to the number of participants and a review of the pricing of the five closest competitors. The very next day, Mark received two short reports prepared by one of his employees (appendices).

Mark pondered over the reports, closed his eyes, took a deep breath and then asked out loud, "Okay, so what do we do with the information? How can we use it?"

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### Task

While preparing for class please put yourself in the position of Mark Kowalski, what would you do and why? Please be also encouraged to approach the case not only as an exercise in developing a new price list, but also as a chance to think creatively and come up with a pricing strategy that differentiates the company from its rivals.

As the decision maker in the case is looking for something new, please browse through the available literature on pricing strategies. An example of an article summarizing some of the available strategies could be: *Dolgui, A., & Proth, J. M. (2010). Pricing strategies and models. Annual Reviews in Control, 34(1), 101-110.*



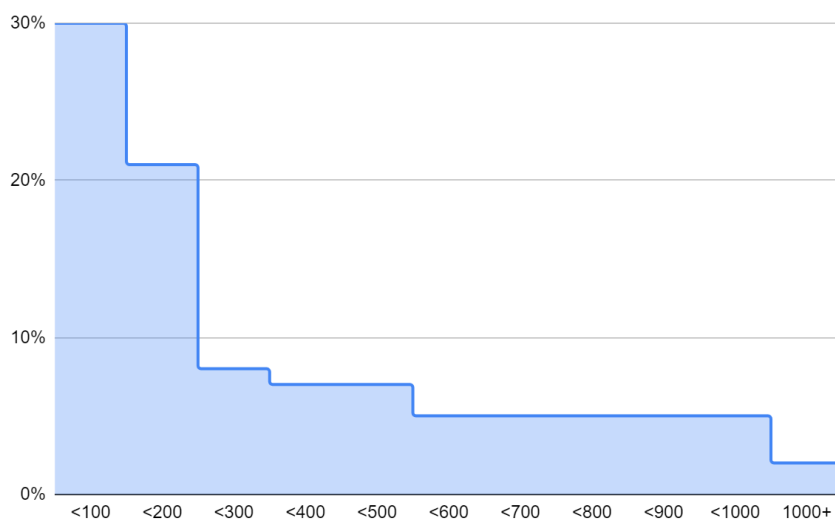
## Appendix 1: Existing clients structure

Number of participants of clients of EduABC as of March 21, 2023

**Exhibit 1: EduABC clients structure by number of school participants.**

Number of participants	Percentage of customers with a given number of participants
<100	30%
<200	21%
<300	8%
<400	7%
<500	7%
<600	5%
<700	5%
<800	5%
<900	5%
<1000	5%
1000+	2%
Total	100%

**Exhibit 2: EduABC clients structure by number of school participants.**



## Appendix 2: Competitors price lists

A review based on data published on competitor sites as of March 21, 2023. All listed competitors offer services with comparable functionality. The competition is pricing their services for schools based on the number of participants, creating a dependency on quantity rather than quality.

### **Competitor 1: SportsEdge**

Characteristics of the service, a target customer:

*An academy or sports club management system*

#### **Price list**

PLN 2            for each registered player or club  
PLN 20          monthly minimum fee  
PLN 500        monthly maximum fee

### **Competitor 2: LanguageLearnMate**

Characteristics of the service, a target customer:

*A platform for managing the daily work of a language school.*

#### **Price list**

#### **Exhibit 3: Competitor 2 price list**

Number of participants	Price per participant (PLN; net)
<50	5,50
<100	3,63
<200	2,62
<300	2,20
<400	1,93
<500	1,73
<600	1,56
<700	1,41
<800	1,26
<900	1,12
<1000	1,05

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### **Competitor 3: Edusphere**

Characteristics of the service, a target customer:

*Support in the management of small, medium and large schools.*

#### **Price list**

#### **Exhibit 4: Competitor 3 price list**

<b>Number of participants</b>	<b>Price per participant (PLN; net)</b>
<50	2,83
<100	2,04
<150	1,82
<200	1,72
<250	1,53
<300	1,42
<350	1,36
<400	1,32
<450	1,27
<500	1,22
<700	1,19
<800	1,17
<900	1,14
<1000	1,10
<1500	0,86
<2000	0,67

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### **Competitor 4: EduGo**

Characteristics of the service, a target customer:

*Support in the management of small, medium and large schools.*

#### **Price list**

Free for any number of participants with limited features.

#### **Exhibit 5: Competitor 4 price list**

<b>Number of participants</b>	<b>Price (PLN; net)</b>
<50	110
<100	165
<200	299
<500	499
<1000	899



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### **Competitor 5: LangPro**

Characteristics of the service, a target customer:

*A platform for managing language schools and other educational institutions.*

#### **Price list**

##### **Exhibit 6: Competitor 5 price list**

<b>Number of participants</b>	<b>Price (PLN; net)</b>
<50	138
<100	203
<150	269
<200	318
<250	390
<300	460
<350	525
<400	585
<450	643
<500	699
<550	750
<600	799
<650	844
<700	899
<750	949
<800	985
<850	1030
<900	1068
<950	1098
<1000	1138