The SaaS Business Model

Idea In Short

The software as a service (SaaS) model delivers applications over the internet on a subscription basis rather than through one-time license sales. Customers pay recurring fees for access, support and updates, while the provider owns the infrastructure, security and maintenance. This shifts the economics of software from large upfront purchases toward smaller, repeated payments tied to ongoing use. Salesforce, the customer relationship management (CRM) platform that helped popularize the model in 1999, illustrates how a business built entirely around subscriptions can scale into a multibillion-dollar enterprise. Its success depends on three linked metrics: the cost of acquiring customers, the value each customer generates over time and the rate at which customers leave. Executives evaluating a shift to subscription pricing need to understand how these dynamics interact before committing capital.

What Is SaaS

Software as a service (SaaS) delivers applications to customers over the internet instead of through software installed on individual machines. Customers pay a recurring fee for access, and the provider takes on hosting, security, maintenance and version upgrades that used to sit with the buyer. Gartner defines SaaS as software owned, delivered and managed remotely by a vendor and accessed by users over the internet on a pay-for-use basis. [1] Users reach the application through a browser, a mobile app or a thin desktop client, and every customer runs on the same underlying platform, which the provider scales as demand grows. This arrangement removes the need for buyers to provision servers, schedule patches or plan around version releases, shifting that operational burden onto the vendor instead.

How the SaaS Model Works

The SaaS business model runs on repeated, smaller payments instead of one large sale. A customer who once bought a perpetual license for a fixed sum now pays monthly or annual fees for as long as they keep using the product, and stops paying the moment they cancel. IBM describes the SaaS provider's role as operating, managing and maintaining both the software and the infrastructure it runs on, while the customer simply creates an account, pays a fee and starts working. 2 Revenue arrives gradually rather than upfront, so a SaaS company typically needs meaningful capital before its subscription fees cover development and infrastructure costs. Because contracts renew or lapse on a schedule, retention becomes as central to the business model as the initial sale, and updates get released continuously instead of bundled into occasional new versions.

Salesforce and the Subscription Standard

Salesforce did more than adopt SaaS early. It built the commercial playbook the rest of the industry still follows. Marc Benioff founded the company in 1999 around the slogan "No Software," arguing that customer relationship management (CRM) tools belonged in a browser rather than on a server down the hall. In his book "Behind the Cloud," Benioff described subscription pricing as a way to align what the vendor wanted with what the customer needed.

> Realigning vendor success with customer success by creating a subscription-based pricing model that grows with each customer's usage

That reasoning, paired with browser-based delivery and shared multi-tenant infrastructure, became the template that most SaaS companies would copy in some form. 3 Selling CRM as a subscription rather than a shrink-wrapped package let Salesforce onboard customers in days rather than months and adjust the product continuously instead of waiting for a new release cycle.

Scale of the Recurring Revenue Machine

The scale Salesforce has reached shows what a mature subscription model can produce. In fiscal 2025, the company reported subscription and support revenue of $35.7 billion, up 10 percent from the prior year and accounting for roughly 94 percent of total revenue. 4 That concentration illustrates the defining feature of the model: once a subscriber base reaches sufficient size, incremental revenue arrives with little additional selling cost, since most customers renew automatically rather than requiring a fresh sales cycle each year. Professional services and onboarding, by contrast, made up a small and shrinking share of revenue, consistent with a business that increasingly runs on renewals rather than one-time engagements.

Market Leadership and Retention

Scale alone does not guarantee that customers stay, so Salesforce has had to defend its position every year against well-funded competitors. IDC ranked Salesforce the number one customer relationship management (CRM) vendor by revenue for the 13th consecutive year in 2025, with roughly 20 percent share of the CRM applications market. 5 Holding that position for over a decade means fending off Microsoft, Oracle and SAP while continuing to add features across sales, service, marketing and commerce. The company's answer has been to expand what existing customers buy rather than rely only on new logos, bundling additional clouds and, more recently, artificial intelligence features into upgrade paths for accounts it already serves.

Balancing Acquisition and Retention

Every SaaS company, Salesforce included, has to manage the same underlying tension: what it costs to win a customer against what that customer is worth over time. Research on customer economics, cited widely in subscription business analysis, puts the cost of acquiring a new customer at five to 25 times the cost of retaining an existing one. 6 That gap explains why SaaS companies invest so heavily in customer success teams, self-service support and product updates aimed at reducing the number of subscribers who leave each month, known as churn. When acquisition costs, customer lifetime value and churn move in the company's favor together, the business generates enough cash from existing subscribers to fund new customer growth without external capital, a dynamic often called a virtuous cycle.

Trade-offs and Risks

The SaaS model carries real costs that offset its advantages. Building and securing a multi-tenant platform requires substantial investment before the first subscription dollar arrives, and that investment gets recovered slowly through small, recurring payments rather than a single upfront sale. Customers can also leave with little friction, since there is no hardware to depreciate or contract to unwind, which puts continuous pressure on the provider to keep proving its value. Security responsibility sits entirely with the vendor, meaning a single breach can damage trust across an entire customer base rather than one buyer's installation, so the operational bar for reliability and data protection stays high throughout the life of the contract.

Key Partners

Salesforce depends on Amazon Web Services and other public cloud providers to host and scale its multi-tenant infrastructure. Systems integrators such as Deloitte and Accenture help large customers configure and roll out the platform across complex organizations. Independent software vendors build and list applications on AppExchange, extending the platform's reach into niche use cases. Channel resellers and regional agencies extend distribution into markets Salesforce's direct sales team does not cover as efficiently.

Key Activities

Salesforce's core activity is continuous development of its cloud software, adding features across sales, service, marketing and commerce clouds. The company invests heavily in maintaining platform security, uptime and the compliance certifications enterprise buyers require before signing. Sales, onboarding and customer success functions run in parallel, since subscription renewal depends on customers realizing value quickly. Data infrastructure work, including its Data Cloud and AI tooling, has become a growing share of engineering effort.

Key Resources

The multi-tenant cloud platform itself is Salesforce's central resource, built to serve hundreds of thousands of customers from shared infrastructure. Engineering, sales and customer success talent represent the largest recurring cost and the primary source of competitive differentiation. Aggregated customer and usage data feeds product improvements and increasingly powers AI features sold as add-ons. The Salesforce brand and its Trailhead training ecosystem also function as durable resources that lower customer acquisition costs.

Value Propositions

Salesforce offers a single, unified view of the customer across sales, service, marketing and commerce functions. Customers avoid the cost and complexity of running servers or managing upgrades, since Salesforce operates the infrastructure. Continuous feature releases mean customers get incremental improvements without waiting for a new version to install. The platform's AI-powered automation and workflow tools help customers act on data rather than just store it, and the architecture scales from a small team to a global enterprise without a platform change.

Customer Relationships

Large accounts get dedicated account executives and customer success managers who manage renewals and expansion. Smaller customers rely more on self-service resources, including Trailhead, Salesforce's free online training platform. A large user community, known as Trailblazers, provides peer support through forums and events, reducing the burden on formal support channels. Together these layers let Salesforce vary the relationship intensity by account size without proportionally increasing headcount.

Channels

Direct enterprise sales teams handle the largest accounts and most complex deployments. AppExchange, Salesforce's application marketplace, lets customers discover and install both first-party and partner-built extensions. A network of resellers and regional partners extends distribution into markets and segments direct sales does not prioritize. Digital channels, including the Salesforce website and product-led trial signups, support smaller self-serve customers.

Customer Segments

Salesforce serves small and midsize businesses through streamlined, lower-cost editions of its core products. Large enterprises make up the bulk of subscription revenue and typically buy multiple clouds bundled together. Industry-specific versions, covering sectors like financial services, health care and the public sector, address regulatory and workflow needs unique to each vertical. Nonprofits and educational institutions receive discounted licensing through a dedicated program.

Cost Structure

Research and development, cloud hosting and security account for a large share of Salesforce's fixed costs. Sales, marketing and customer support are the biggest variable costs, scaled to acquire and retain subscription customers. Data center capacity and compliance certifications add ongoing costs tied directly to enterprise trust requirements. Because most revenue is recurring, these costs get amortized across a growing subscriber base over time.

Revenue Streams

Subscription licensing fees, billed annually or on multi-year terms, form the overwhelming majority of Salesforce's revenue. Add-on modules, premium support tiers and AI-based products such as Agentforce generate incremental revenue from existing accounts. Professional services and training fees contribute a smaller share, mostly tied to implementation and onboarding. Usage-based components are growing as Salesforce prices some AI capabilities by consumption rather than a flat seat fee.

- 1Software as a service definition
- 2What is software as a service
- 3After 20 years of Salesforce
- 4Salesforce fourth quarter fiscal 2025 results
- 5Salesforce named #1 CRM provider by IDC
- 6The value of keeping the right customers

Summary

The SaaS model rewards companies that treat retention as seriously as acquisition. Salesforce shows what disciplined execution looks like: nearly all its revenue comes from subscriptions, and it has held the top spot in CRM market share for over a decade by continuously adding value to existing accounts rather than only chasing new logos. That said, the model punishes complacency. Upfront development costs stay high, margins take time to materialize, and customers can leave with little friction if a competitor offers more value. Leaders considering subscription pricing should model the interplay between acquisition costs, customer lifetime value and churn before launch, since the returns to getting this balance right compound over years, while the cost of getting it wrong shows up in every renewal cycle that fails to close.