

MASTERING SAAS PRICING

**How to Price Your Product from
the Seed Stage through IPO**

Kyle Poyer

OPENVIEW

Mastering SaaS Pricing:
How to Price Your Product from the Seed Stage through IPO
First Edition

Copyright © 2017 OpenView Investments, LLC
Boston, MA

All Rights Reserved. This book or any portion thereof
may not be reproduced or used in any manner whatsoever
without the express written permission of the publisher
except for the use of brief quotations in a book review.

Printed in the United States of America

MASTERING SAAS PRICING

**How to Price Your Product from
the Seed Stage through IPO**

First Edition
Kyle Poyer

Layout design by Rachel Worthman
Cover image courtesy of iStock.com/Rawpixel

TABLE OF CONTENTS

Foreword	7
Part I: Pricing at the Seed Stage	11
Introduction	13
Value Metric	16
Acquisition Tactics	22
Case Study	26
Setting Prices	35
Case Study	43
Part II: Pricing at the Expansion Stage	49
Introduction	51
Case Study	52
Packaging Strategy	61
Acquisition Tactics	69
Case Study	76
Part III: Pricing at the Growth Stage	83
Introduction	85
Case Study	87
Setting Prices	92
Case Study	102
Competitive Strategy	106
Case Study	114
Closing	119

FOREWORD

Determining the right pricing model for your SaaS product is never easy. But working for a company like Zuora, that serves the needs of the Subscription Economy, has given me a ringside view into the creative ways in which hundreds of business leaders monetize their products and services.

Discussing and sharing these pricing and packaging observations with others in the software community has always been a great passion of mine as well as Zuora and OpenView. Over the years, the single most valuable lesson I've learned is that you have to be ready to constantly iterate on both your packaging and pricing. Successful companies are those that think of pricing and packaging in the same way that they think about product development – their pricing is in a constant state of evolution. It's never 100% done.

The elements that go into pricing design, the trade-offs you make, and the objectives and outcomes that any pricing and packaging decisions must meet should evolve as your company grows. What worked well when you were a \$5 million ARR business may not serve you well as you become a \$20 million ARR business. But this is easier said than done. Many companies are unable to optimize their monetization models for multiple reasons, some of which include:

- » **Their systems hold them back from getting creative with pricing.** Pricing and packaging innovation isn't just about upfront analysis and strategic decision making. In order to succeed, companies also

need systems that enable them to maintain a healthy pace of pricing and packaging innovation. Since all pricing and packaging decisions have downstream impacts in billing and revenue recognition, putting your best pricing ideas into practice is difficult if you're not armed with the right technology. Just as you wouldn't take a SaaS product to market without thinking through the infrastructure that the product will be deployed on, never underestimate the importance of putting in place the right technology and systems to enable your pricing strategy.

» **There is no real cadence or process for ongoing pricing innovation.**

Pricing innovation. Once you overcome your systems challenges, you'll find that you also need to overcome the "organizational inertia" that often gets in the way of making the right pricing decisions. Think through how you might want to align corporate revenue and retention goals with pricing design, who your stakeholder and decision makers will be and who should be tasked with driving the internal alignment process.

» **Packaging design doesn't encourage ARPA/ARPU growth.**

In early stages of growth, you'll likely steer your pricing and packaging design to optimize for market capture and demonstrate YoY bookings growth. However, as your company matures, you'll need to show growth in net dollar retention. That is, you'll want to ensure that existing customers spend more with you over time. To do that, you'll need to build the right tipping points and growth levers into your pricing and packaging.

» **Companies shy away from price testing.** Building a process and methodology for testing different pricing models as well as evaluating a market's "willingness-to-pay" are not easy tasks. The good news is that there are a number of industry experts and new technologies that can guide you through this process or even do it for you. The even better news is that in the early stages of growth, this does not always need to be a complex exercise. A number of companies I've spoken with tend to overthink the rigor and process they need to put in place to conduct an effective test. Never underestimate the value of speaking to your existing customers or target buyers. A well thought-out interview conducted across key buyer personas can provide great insights to help you develop early pricing and packaging design assumptions.

» **They choose the wrong value metric.** Decide

early on what metric you want to use in order to align the price you will charge with the value your product provides. There are many studies which indicate that more and more companies are pricing by parameters outside of seats and users. But before you go down the path of choosing a metric, ensure you think through the implications. Keep in mind that any metric you use to assign value and ultimately drive price for your product should be easy to understand and easy to map to value for your buyers. Furthermore, you'll want to ensure that it's easy for you to measure and track this value within your own system – afterall, you can't monetize what you can't measure.

The pages that follow provide valuable lessons on pricing and packaging decisions and further illuminate the ways in which price can be optimized both to deliver value to your company and your end user. In this guide, you'll find actionable advice on how to design and innovate your monetization models as you grow your company from just an idea to a sustainable business. And if you're someone like me who learns from real world examples and not just theoretical advice, this is a great resource. You'll get an inside look into how the most successful startups price their products with examples from x.ai, Meetup and BigPanda, as well as survey findings from over 1,000 SaaS companies.

We hope you enjoy the content herein and most importantly, gain valuable information on how to best price your product from seed stage all the way to IPO.



MONIKA SAHA

Monika is VP/GM,
Finance Product Line at Zuora.

PART I: **Pricing at the Seed Stage**

INTRODUCTION

Pricing keeps many seed stage CEOs up at night. It represents the ultimate referendum on how much value your product has created for would-be users. And, unlike in other industries, software companies have nearly limitless possibilities when it comes to how and how much they can charge their customers. In fact, our research shows that public SaaS companies capture anywhere from \$100 to \$1.8M per year on average from their customers. Directly borrowing pricing practices from other software companies could have seriously detrimental effects on your growth potential.

So, to help overcome the issues many CEOs and leaders face when pricing their software products, we recently surveyed over 1,000 SaaS executives, including more than 400 seed stage companies, about how they approach pricing. We learned that seed stage companies tend to treat pricing as a last minute, ad hoc decision handed down from company leadership rather than dedicating the time and effort required to getting it right. Consequently, seed stage companies are more likely to lowball their initial pricing and merely mimic competitors' strategies rather than using pricing as a strategic differentiator. The survey results show that seed stage companies:

- » **Wait until the last minute on pricing:** Half of seed stage companies consider pricing either right before launching their product or as the product is getting ready to be launched. In the words of pricing and innovation guru Madhavan Ramanujam, "They embark

on a long, costly journey of hoping they'll make money rather than knowing they will." Best-in-class companies take pricing into consideration extremely early in the development process to ensure they build something differentiated from alternatives and that people will actually pay for.

» **Treat pricing as an ad hoc decision for company leadership:**

55% of seed stage companies say pricing is handled on an ad hoc basis and that no one is dedicated to pricing on either a part or full time basis. CEOs own pricing at 82% of seed stage companies, versus 70% of expansion stage and 48% of growth stage companies.

» **Fail to conduct adequate pricing research and testing:**

Given the lack of resources dedicated to pricing, particularly at seed stage companies, it's not surprising that no one owns the testing or research that goes into ensuring its optimization. More than 40% of seed stage companies have never tested or piloted their pricing and a similar amount have never conducted market research to understand how much buyers would be willing to pay. Companies spend so much time on testing and continuous rapid improvement for other aspects of their business. Shouldn't they do the same for pricing changes, which drive a far higher profit improvement than any other initiative?¹

» **Low ball their initial pricing:** 54% of seed stage companies charge less than \$5,000 per year for an average customer compared to only 30% of expansion and growth stage companies. Meanwhile, only 41% of seed stage companies take a value-based approach to their pricing, with the rest merely mimicking competitors (30%), making a gut-based judgment call (21%) or taking a cost-plus approach (7%).

Pricing could and should be as much a part of your innovation as your product offering. Companies like x.ai and Meetup, for example, have had tremendous success with recent SaaS product launches by taking a thoughtful approach to their pricing. Even if you fail at pricing out of the gate, the good news is that as a seed stage company, you still have time to fix it. Seed stage companies have far more flexibility to rethink and experiment with their pricing compared to later stage companies. So what are you waiting for?

Part I: Seed Stage walks you through important pricing and go-to-market decisions at this vital stage so you can capture the full value from your innovation and set your company up for long-term success.

1

<http://users.metu.edu.tr/mugan/Hinterhuber%202004%20value%20based%20pricing.pdf>

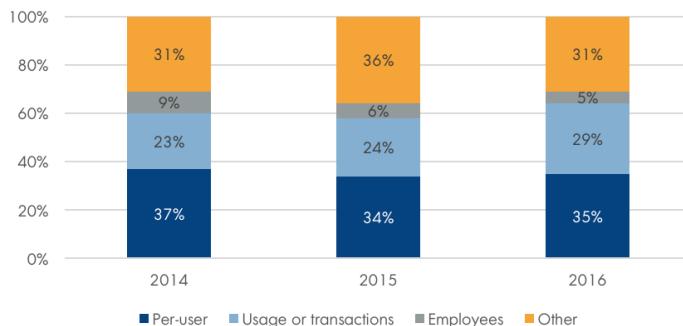
VALUE METRIC: Why Do SaaS Companies Still Charge by the User?

You don't need to look very hard² to find advice warning you against charging on a per user basis. Per user or seat-based pricing can disincentivize adoption, which may lead to lower retention rates and reduced opportunities for expansion. This pricing system does not clearly link to the value delivered by most products. It creates all sorts of gaming and nickel-and-diming behavior among customers. Plus, it's a relic of the 90's that's surely showing its age.

Yet, for three consecutive years running, per user pricing remains dominant at SaaS startups according to a study recently released by Pacific Crest³. In fact, companies including Slack and Salesforce rely on the model. Earlier this year OpenView also found per user pricing to be dominant among public SaaS companies and unicorns, appearing on half of the pricing pages⁴ we analyzed.

Most common value metrics for SaaS startups

Pacific Crest Study: What is your primary pricing metric?



2 [http://www.priceintelligently.com/blog/bid/198499/Stop-Per-User-SaaS-pricing-You're-Killing-Growth](http://www.priceintelligently.com/blog/bid/198499/Stop-Per-User-SaaS-pricing-You-re-Killing-Growth)

3 <http://www.forentrepreneurs.com/2016-saas-survey-part-1/>

4 <http://labs.openviewpartners.com/saas-pricing-best-practices/>

So why is this? Admittedly, per user pricing has a few things working in its favor. Everybody understands it, it's predictable to budget for and buyers know exactly what they're paying for. Per user pricing has become the default metric in several software categories (CRM, communication, networking, collaboration, help desks), which makes it tough for new entrants to implement new models.

Even so, in too many cases SaaS companies have blindly followed others and selected per user pricing rather than fully considering the alternatives. In the words of Patrick Campbell, CEO of Price Intelligently:

"The reason per user pricing exists is because it's a legacy of the old license model for perpetual seats. The problem with most per user pricing is the experience for anyone who logs into the product is actually pretty similar and the value that's being given is not on a per user basis. If you can get the exact same experience no matter what log in you use it's a good litmus test that you probably shouldn't be using per user pricing."

Think Before You Select Per User Pricing

We need to hold per user pricing to the same standards that we hold other metrics. Before selecting per user pricing, consider whether it best reflects the value created by your product and the purchase behavior of your target buyer personas.

We've created the following checklist to help you decide whether per user pricing makes the most sense for your SaaS startup. The more of these conditions are true, the better per user pricing will work for your business. Take Slack as an example. Each user receives differentiated value from Slack, companies want to standardize on one networking platform and the product has built-in network effects. Per user pricing is a very strong fit for Slack. If most of these conditions are not true; however, you should reconsider.

PER-USER PRICING SCRATCH PAD		
CONDITION	EXAMPLE	TRUE?
Each user receives differentiated value from accessing the product	LinkedIn Recruiter	✓
Customer has a strong need to standardize their department or company on the platform	Salesforce	✓
The product has network effects, where initial users want to collaborate and invite others	Slack	✓
Budget predictability and control is critical for your buyer persona(s)	DocuSign	✓
Buyer is less sophisticated and needs easy-to-understand pricing	Evernote	✓
Usage metrics in your industry have become commoditized or are becoming table stakes	GitHub	✓

Incorporating Usage into Your Pricing

Despite the continued reliance on per user pricing, there was a bright spot in this year's Pacific Crest study: Usage-based pricing seems to finally be surging in popularity. 29% of SaaS startups in the study incorporate usage into their pricing, up 5 percentage points from 2015 and now a close second behind per user pricing. Examples of usage-based pricing include the number of transactions, number of videos, number of marketing contacts or number of visitors to your website.

A usage-based value metric has a better shot at reflecting the unique value perceived by customers for your specific product. It tracks well with a land-and-expand business model: New customers can start at an affordable price, and then pay more over time as their needs become more sophisticated or as the product becomes more embedded in their business.

Look at Wistia, the video marketing platform for business. Wistia's 300,000 customers use the platform to host videos and deploy those videos to engage different audiences, generate new leads and understand how their audiences interact with their content. Imagine if Wistia charged their clients on a per user basis. Since most businesses have only a limited number of video marketers on staff, Wistia would be stuck selling lots of one and two user deals. What's worse, a startup that's new to video and only has a couple of professional videos would be charged the same price as a more established company with hundreds of assets and who use video to drive thousands of leads.

Wistia has honed in on a per-video value metric instead, and their different pricing packages come with an increasing number of videos that a business can store on the platform. In addition to more videos, higher tier packages unlock value-added features such as white label branding, advanced integrations, account management and priority support. These features probably matter more to a video-savvy business than one with only a handful of videos.

Free \$0/Month	Pro \$100/Month	Premium \$300+/Month
Space for up to 3 videos	Space for up to 20 videos	Platform pricing and bulk discounts
Standard features	\$4 per additional video	Advanced integrations with Pardot, Hubspot, Marketo, and Salesforce
Virtually unlimited viewing	Standard features	Account management, SLAs, Priority Support
Wistia branding on player	Virtually unlimited viewing	
Get started	No Wistia branding	Get in touch
	Start for Free. Upgrade at any time.	

Zuora, the subscription billing, commerce and finance software, similarly incorporates usage into the pricing for some of its products. As Zuora's VP of Marketing Monika Saha explains, this type of pricing aligns much better with the value that Zuora provides compared to the typical per user pricing. That said, even though a usage-based pricing model makes sense strategically for Zuora, there was a non-trivial amount of work that needed to happen to enable sales and buyers to accept this new way of paying.

"We chose to price based on transaction volume 8 years ago. At the time we got a lot of pushback from the target market because buyers were used to paying for accounting or CRM software on a per user basis. We learned early on that you have to be very mindful about training the folks who are selling the software to articulate it the right way."

When you are in an early stage of your growth, you have tremendous flexibility to experiment with different value metrics and pricing structures. Your pricing model could be as much a part of your innovation as your product offering. Think carefully about whether per user pricing really is the best value metric for you, or if it will impede your growth prospects. Perhaps there's a better alternative you've yet to discover.

ACQUISITION TACTICS: The Slow Death of Freemium and What Comes Next

Only a few years ago, the conventional wisdom held that startup founders should offer a substantial part of their product as “free forever,” which would lead to viral adoption and – maybe, eventually, hopefully – revenue. There have been some phenomenal freemium success stories, too, namely Hootsuite, Yammer, Slack, Evernote, SurveyMonkey and Dropbox.

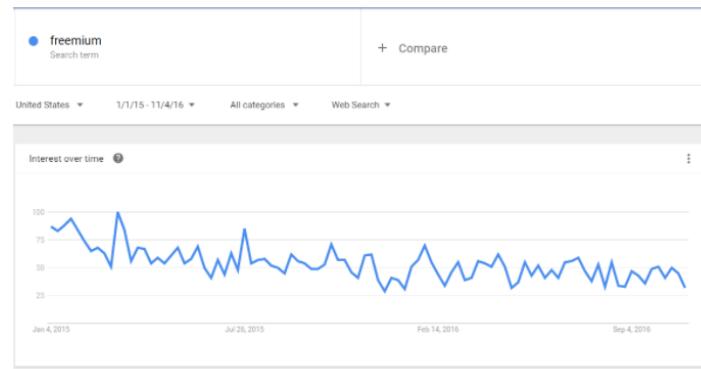
But things have started to change. Venture capital is no longer an unlimited commodity. SaaS startups are under greater pressure to prove that they have a sustainable revenue model and can generate paying customers, not just free users who drain scarce resources.

Startups have also had more time to test freemium and determine whether, how and when it moves the needle for their business. They’ve learned that giving away free product does work in certain instances or for certain businesses, like companies chasing a market with millions of potential users or ones that have deployed a product-led growth (PLG) strategy.

Unfortunately, most enterprise SaaS businesses do not have these characteristics and should steer clear of a classic freemium model. For these businesses, having a free offering attracts too many people outside of their target market who would never convert to a paying customer. Even worse, by showcasing an attractive free version, they shoot themselves

in the foot when they try to move upmarket and close 5 and 6 figure deals.

Looking at Google Trends data, interest in freemium has fallen substantially over the past two years, and is down to only 25% of its 2015 peak.



This decline is backed up by survey data from SaaS operators. In its 2015 annual survey⁵, Pacific Crest asked SaaS operators how much of their company’s new ACV was driven by freemium leads. Three-quarters of companies generated no new ACV from freemium, and only 9% derived greater than one-quarter of their new ACV from freemium. In other words, freemium has pivoted from being at the core of a SaaS company’s revenue model to just another lead gen tool in the marketing toolbox, albeit one with some pretty significant downsides.

5

<http://tomtunguz.com/images/2015-PC-Survey.pdf>

What Comes After Freemium

With classic freemium decreasing in importance, SaaS entrepreneurs need to get more creative with how they generate leads and new business. Sometimes that means turning back to old-school tactics that have been around for decades. Here are four approaches to offset a failing freemium model.

1. Free trial

The consumerization of IT has conditioned buyers to expect to play around with a product before being locked into a long-term contract. This has in turn led to the popularity and effectiveness of free trials or “try before you buy” strategies. Free trials, as opposed to freemium product versions, showcase premium features that are disabled when the trial expires (the user fails to pay). This creates a much stronger incentive for the user to convert from free to paid. The same Pacific Crest study that debunked the effectiveness of freemium shows that free trials remain as essential as ever. Of the SaaS operators that were surveyed, 30% said that free trial leads drove greater than one-half of their company’s new ACV.

2. Tailored, hyper specific free products for lead gen

What’s so appealing about free products is the potential for viral adoption and rapid, cost-efficient growth in product usage. Companies like Clearbit have cleverly tapped into those benefits with tailored, hyper-specific free products that appeal to their target buyers without cannibalizing their paid offerings. One of Clearbit’s free products, the Logo API, generated tremendous buzz among developers on both

HackerNews and Product Hunt, and they’ve seen repeat success with other free products⁶. Unlike a classic freemium product, which gives free users the keys to the castle, Clearbit’s Logo API only makes one of Clearbit’s 85 data points available for free.

3. Product qualified lead (PQL) engines

As HubSpot’s VP of Product Christopher O’Donnell explains, “Freemium fell short in B2B and from its ashes rose the PQL.” He recommends combining the velocity of freemium or self-service offerings with the higher deal sizes that come with an inside sales team. One way to achieve this is to sell entry-level versions of a product to individuals or teams within larger enterprises as part of a land-and-expand business model. These offerings create a self-funding customer acquisition engine that allows companies to more seamlessly break into large companies from the bottom up before eventually selling an enterprise-wide deal.

4. Anti-lean startup approach

Rather than starting out with a minimum viable product, getting it out the door quickly and then monetizing later, some companies are reversing the playbook and becoming “anti-lean” startups. These companies, including AI personal assistant x.ai, take a more thoughtful and ambitious approach to building their products. The happy consequence: their products solve a clear need, stand apart from alternatives and attract customers that are willing to pay for them. With x.ai, it took almost three years to get the product to market, but they “launched to a pool of eager customers willing to pay,” and according to CEO & Founder Dennis Mortensen, “the sky’s the limit.”

6

<http://blog.clearbit.com/how-were-using-free-tools-to-engage-developers/>

CASE STUDY: How Meetup Built Demand for an Enterprise Product

As anyone in the SaaS world knows, sometimes it takes a few tries to get a thing right. Whether you're talking about releasing a new feature, breaking into a new market, or adjusting product-market fit, sometimes finding a working solution requires coming at the challenge from a new (and even unexpected) direction. This is exactly the approach Brian Lafayette, Director of Strategy at [Meetup](#), and his team took in order to crack the code on how to reach and engage their B2B market.

The story of their success involves overcoming internal skepticism, facing up to past failures, and then forging ahead with a product-led growth strategy that not only helped them reach their original goals, but also provided the added benefit of uncovering an unanticipated earning opportunity that they now forecast could account for up to 30% of future revenue. And, like so many success stories, this one starts with failure.

The Situation – Shaky Ground

"This definitely wasn't the first time we'd tried to connect with the B2B audience," says Lafayette. "Meetup has been building local communities for thirteen years, and the team here had experimented with a number of strategies including Meetup Everywhere, corporate Meetup sponsorships, and even branded perks and incentives; but nothing seemed to stick." Despite these failed attempts, it was clear to Lafayette

that the B2B audience represented a worthwhile opportunity. In fact, he knew that some businesses were already running groups on Meetup. The problem was that these businesses had to use a workaround in order to achieve the scale they needed in terms of the number of groups they wanted to run and the geographic spread of those groups.

To accommodate these "edge" cases, the Meetup team hacked their own system so they could manually override the three-group maximum that was in place for individual users. Despite the awkwardness of the process, Lafayette was intrigued and encouraged by the fact that none of the companies that signed up for this modified subscription ever canceled.

The catalyst for Lafayette's reengagement with the challenge of serving the B2B audience was a phone call from Google Developers Groups. They were running about 700 groups all over the world, and they were looking to consolidate and unify those groups on one platform. Discussions with their developers, who had been running the groups independently across a variety of platforms, indicated that the general preference was to use Meetup. From there, the conversation opened up to talk about requirements, and the ball was rolling.

The Plan – A Detailed Model and an Aggressive Goal

Very early on, Lafayette was emphatic about building something that would meet not only Google's immediate needs, but that would also serve the long term vision

for Meetup's overall business. "We're an independent company," he says, "So, even if Google was knocking on our door, the leadership team agreed that we needed to be strategic about how to move forward. We didn't want to let this one project become a distraction from other things we could be working on."

Past failures to connect with the B2B audience had left the leadership team feeling skeptical about the viability of another attempt, so Lafayette's first step was to get leadership buy in. To do this, he built a model to forecast the growth potential of the B2B business. "We set a really hard target with a minimum goal of \$10 million in five years," he says. "We then defined the criteria that would allow us to meet that goal: how many paying customers, how many groups each customer would have to be running, and the overall mix of customers based on the different price points we planned to offer."

This detailed plan served several purposes. First, it helped to sell the concept internally based on the revenue potential. Second, it gave the leadership team an easy out by clearly articulating the conditions the team had to meet in order to keep the project alive. And, finally, it provided very concrete guidance for the sales team. "We essentially had a model that forecasted trajectory, and then — as the inputs came in — we could update that to show we were still on the right path," Lafayette explains. "The model also gave our sales team super-specific, month-by-month targets that made it easy for us to see exactly when they were falling short, so that we could make proactive changes to improve conversion."

The Research – The Good, the Bad, and the Unknown

With the plan approved, Lafayette's next step was research. "The first thing we did was bring in people who had worked on the past sponsorship, perks, and Meetup Everywhere projects," he says. "We asked what went wrong and learned that the common point of failure was an assumption that large numbers of Meetup groups could be run by a centralized administrator without the support of local people on the ground." In addition to shedding light on a major customer-side problem, this observation also provided an important internal insight for Lafayette, "Discovering that long-distance group management was a key problem helped us realize that if what you build doesn't leverage your core product, then — even if it does kind of work — you will lose support quickly because the project will be viewed as a distraction from the core business."

Meetup's core product had always been about facilitating and mobilizing local groups. The previous attempts became a distraction because they used different ways to facilitate local interaction. For example, with Meetup Everywhere an entirely different website was built, and the Meetups didn't appear in the company's core product. "It was something completely separate from our core product that didn't really make it any stronger," says Lafayette. "Now, With Meetup Pro, organizers use all the same tools as our individual product, but the central administrator can push notifications and other items out to them."

Building off of their initial learnings, Lafayette's team then interviewed current businesses that were using the

workaround solution. "We talked with existing customers about possible features, what would be most interesting to them, and how they were using Meetup for their existing groups," Lafayette says. "We also had the price discussion so we could begin to understand the different price thresholds."

The First Step – A Landing Page for a Nonexistent Product

Insights from the research phase (internal conversations, customer interviews, and also analysis of historical pricing trends) pointed toward a segmented approach. "We saw that for-profit businesses would be willing to pay a lot more if we could offer them a few simple enhancements," Lafayette says, "So we narrowed our focus to the audience segment with the willingness and ability to pay a premium for a better value and then created a tiered pricing structure that addressed three customer types: big for-profit businesses, small for-profit businesses, and nonprofits/startups."

While Lafayette had a strong hypothesis, he had no way to be sure that the price ranges the team had defined were viable. To validate whether they could sell the product at the target prices, Meetup's product, engineering, design, and sales teams had to take the offer to the market. "Essentially, before the Pro product even existed, we created a landing page for it," he explains. "We added two quick features: a map page that displayed the customer's network of Meetup groups in one place as 'My Network,' and an admin page that allowed owners to message all members across all groups simultaneously."

With this modest minimum viable product in place, the team was ready to start working toward meeting the sales goals outlined in the forecast model.

The Sales Strategy – Small Changes with Big Effects

"We started off thinking we might be able to get new companies to bring their groups onto the Meetup platform," Lafayette recalls. "But, it didn't go that well. We quickly realized that the approach didn't work because it was kind of difficult for someone to run meetups if they had to start from scratch, not understanding how it all works." After that false start, the team was pleasantly surprised to see a lot of unexpected interest from existing customers on the old, hacked "product." In addition to upgrading many of those customers to the Pro version, the team also got some leads through a kick-off event they ran on an industry forum.

But, where the team really started to gain traction, was when they began making subtle, in-product adjustments to reduce friction in the customer experience. Though the changes were small, they made a big difference in helping automate the up-sell process:

- » They featured Meetup Pro prominently in the help section.
- » They began routing people who tried to add a fourth group directly to sales. (In the past, people who tried to exceed the three-group limit would be denied and

would have to write the customer support team for a manual override).

- » They implemented a simple, third-party form that allowed customers to sign up for the Pro product without having to call a support or sales person.
- » They removed the step of having customers sign a comprehensive master service agreement (MSA), a requirement that was creating a bottleneck with legal departments.
- » They enabled credit card payments. (Previously, the only method of payment was by mailed check).

Each of these changes might seem inconsequential on its own, but together they helped to create a much more efficient customer experience that enabled a self-managed up-sell for customers who were already familiar with the Meetup product. "We realized that we were getting way, way more traction with people who already had some groups and activity on the network because they already understood the value of Meetup and the role it plays in their organization," Lafayette explains. "From there, it was just a matter of helping them see how easily they could upgrade to Pro so they could manage their groups in a scalable way."

The Future – Focus, Proof Points, and Smart Scalability

Roughly seven months after the Pro product launched, the user base has grown to more than 200 organizations that between them run more than 5,000 paying groups. Perhaps even more impressive than the subscription numbers is the fact that, so far, the product has 100% retention. "One of the keys to our retention rate is that we kept the original hacked solution 'product' as a kind of backup option," Lafayette says. By doing this, Lafayette ensures that customers who don't convert to the Pro product after their three-month trial still have a product option on the platform.

"We essentially use the original solution like a down-sell," he explains. "For people who don't want to pay for the full upgrade, we can offer a solution with fewer features (no admin page, etc.) at a lower cost that allows them to maintain all of their existing groups and add as many new groups as they want." On the back end, the team has removed the formerly awkward operational process by simplifying the infrastructure so that both the Pro product and the down-sell option use the same billing system. After updating forecasts, Lafayette believes that by keeping people on the platform, this "down-sell" product will eventually account for about 30% of future revenue.

After their initial success with Pro, Lafayette and his team are now working on the most efficient and profitable way to take the product to the next stage. At the moment, Pro is still flying somewhat under the radar because the team isn't ready to open it up to the full Meetup user base. "We're not yet ready to handle the demand," Lafayette admits. "Right now,

we're focused on engaging only the most highly qualified customers and figuring out what's left to prove in the product to confirm that this is a business we want to invest in for the future. We're hoping to find those proof points as quickly as possible so we can build out anything we need to have to support the scaling of the product, and then tell all 17,000 of our likely-to-upgrade customers about it." Sounds like Meetup Pro will be a product to watch.

SETTING PRICES: A Simple Framework for Pricing Your New Product and Nailing It the First Time

Established companies have ample resources and a deep bench of existing customers from which to gather data and make informed pricing decisions. Bootstrapped startups like you don't have the same people, knowledge, resources and customers at your disposal. It becomes far harder to set a price point, let alone to foster full confidence that you picked the right price.

Since you're most focused on getting your product launched and out the door, determining price is urgent. In order to get to that number faster, let's drastically simplify the pricing decision and focus on getting to a dollar amount you can confidently stick on your first proposal. This will ignore a host of complex pricing decisions – packaging, value metrics, freemium, discounting, etc. We'll get to those later, but for now, let's focus on a number.

To decide on a launch price, you'll need to quickly gather as much data as you can from four sources: industry benchmarks, competitive analysis, economic value analysis and market research. No data point is a single source of truth, rather you'll want to stitch together the insights from across all four mixed in with the best judgment of your team.

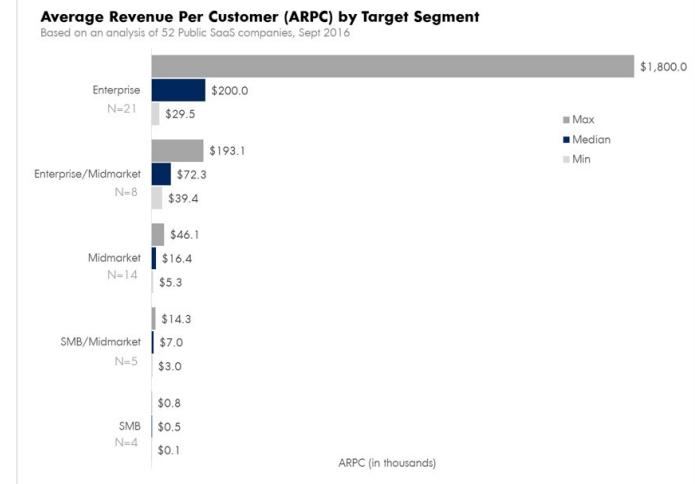
Data Source #1: Industry Benchmarks

Your starting data point should be industry benchmarking based on the target segments you plan to go after. This arms you with a quick understanding of the range of ACV that your customers expect to pay, and that you can expect to charge. That said, the ranges can be quite wide, with prices depending on the level of buyer reached within the organization, how many users interact with the product and the breadth of the product offering.

To give you a leg up, we analyzed the 2015 10-K statements of 52 publicly traded SaaS companies to see what prices they were realizing. For each of the companies, we collected data on their target segment(s), annual revenue, number of paid customers and annual average revenue per customer (ARPC).

Across the 52 companies, ARPC ranged from \$100 to a whopping \$1.8M per year. Thankfully the range gets far more compressed when you hone in on target segments such as Enterprise, Midmarket and SMB.

A plurality of companies, 21 of the 52, squarely target large Enterprises including Veeva, ServiceNow, Apigee and Medidata Solutions. As a working definition, Enterprise-focused companies tend to have in the hundreds of customers (or in the low thousands) with a strong focus on the Fortune 1000. Take Apigee as an example; they reference 260 clients including 30% of the Fortune 100, five of the top 6 retailers and five of the top 10 telecoms companies. Enterprise-focused companies go after a very thin slice of the market but more than make up for it by



commanding a median ARPC of \$200,000 (although it can swing from \$29,500 up to \$1.8M).

Meanwhile, 14 of the 52 companies target Midmarket buyers, which can either mean that the company only goes after the Midmarket or that their customers are evenly distributed from very small to very large. Midmarket-focused companies, such as HubSpot and LivePerson, achieve a median ARPC of \$16,400, far below that of Enterprise-focused customers. It ranges from a low of \$5,300 to a high of \$46,100.

Purely SMB-focused companies were fewer and farther between, representing only 4 of the 52 companies in the study. These companies, like Xero and Constant Contact, earn a median of \$500 per year, or \$40 per month, from their customers. To make up for such a low ARPC, these companies need to chase a huge market and adopt an extremely cost-efficient go-to-market model.

Data Source #2: Competitive Analysis

To narrow your price range, conduct in-depth competitive analysis of your specific technology market.

For many innovative SaaS startups, there may not be a like-for-like product alternative. In those cases the competitive analysis should cover companies that you would consider to be peers rather than direct competition. If you are in the HCM space as an example, you should consider a whole plethora of technology solutions including Applicant Tracking Systems, CRM, Event Management Platforms, Job Distribution, Job Boards, Employer Branding and Career Sites. Your buyer will be doing the math on how much of their budget goes to your solution compared to the other key components of their stack, and so don't forget to factor this into your pricing.

Gathering competitive intelligence on pricing can take on a number of forms. Online secondary research makes for the clearest starting point. Certainly check out pricing pages, but don't stop there. You can find great information from company interviews in the press, 3rd party research reports, software review services like Capterra or G2 Crowd, database services like Siftary and even forums like Quora. For publicly traded companies, it is also worth reading through financial statements like 10Ks to search for their average revenue per customer and what customer segments they are targeting.

Data Source #3: Economic Value Analysis

Once you've understood the market and competitive landscape, you should layer in how much economic value your product creates for customers, or at least how much value you think it will create for customers. This typically comes in a few flavors: incremental revenue, reduced cost, reduced risk or time savings (increased productivity). For each you can attach a back-of-the-envelope dollar value.

Example: Your service is used 10 hours per user over the course of a month. Each hour of using the product shaves 50% of the time that the task would otherwise take. If the typical user is an executive and makes \$125/hour, then you've saved the company \$1,250/user/month (10 hours saved x \$125/hour). If the typical user is a lower skilled employee and makes \$15/hour, then you've saved the company only \$150/user/month.

You will not be able to capture all of the economic value you create, and if you tried to your customers wouldn't have much of an incentive to buy. The portion of it you can capture depends strongly on your ability to prove the benefit, the consistency of the economic value across customers and how much that benefit matters to your target

customer. Capitalizing on the value of time savings may be critical for a business that pays its employees hourly, for instance, whereas it could be of little importance to a government agency.

Data Source #4: Market Research

The remaining data source, primary market research, helps you get specific buyer feedback on needs, value and willingness-to-pay. You have two main types of pricing market research at your disposal: qualitative and quantitative.

Qualitative research, in-depth 1:1 interviews with potential buyers, are most common in a B2B setting and when you have a relatively small universe of target customers. These typically last about 30 minutes each and can cover a wide array of topics. I recommend positioning these interviews as needs and value conversations, rather than “pricing” interviews. That helps put the interviewee in the right frame of mind, and protects against low-balling on price.

Towards the end of these interviews, after the prospective buyer understands and has provided feedback on the product and value proposition, you have an opportunity to ask pricing questions. The van Westendorp method, a common questioning technique, entails asking the interviewee a series of open-ended questions about what price they would expect for your product. While the proper technique involves four categories of questions, I focus on two: what would the buyer consider to be an “acceptable” price (good value for the money) and at what point the price

would start to get “expensive” (they’d have to think twice about buying it). If the price you were thinking of is below what an average buyer considers to be “acceptable,” then you are likely leaving money on the table. If the price is above what an average prospect considers “expensive”, then you’ll probably face adoption hurdles and need to work especially hard at proving the value.

Meetup applied qualitative pricing techniques to help them set the launch price for their new and rapidly growing B2B product, Meetup Pro. According to Strategy Director Brian Lafayette, “We talked with existing customers about possible features, what would be most interesting to them, and how they were using Meetup for their existing groups. We also had the price discussion so we could begin to understand the different price thresholds.” Insights from their research led Meetup to a segmented pricing strategy that addressed companies that were willing to pay different amounts: large enterprises, small enterprises and startups/non-profits.

Quantitative research, or surveys with a large number of potential buyers, come in handy when you are targeting a larger universe of potential customers such as SMB’s or when your audience is diversified. These provide you with statistically significant data and allow you to compare and contrast responses across different segments of respondents. I recommend keeping surveys on the shorter side, typically under 15-20 minutes, to minimize the risk of survey fatigue and poor quality data.

A quantitative survey gives you more opportunity to use indirect pricing methods, such as conjoint analysis. With conjoint methods like CBC and ACBC, you show

respondents sets of product configurations and price points and they choose which they would be most likely to buy. By testing a wide variety of options across a large sample of respondents, you can tease out the incremental utility and willingness-to-pay for different product features.

Indirect research methods like conjoint are more reliable than qualitative methods in allowing you to optimize price levels and forecasting outcomes across a population. On the other hand, they require much more time, skill and expertise to do correctly, and so rarely get applied in the start-up software world.

What comes next?

Even if you launched your product with limited data, the good news is that you still have time to collect additional data and improve your pricing over time. Now that you are having regular conversations with prospects, you have new data at your disposal which you can use to lower or raise prices from where you started. Your pricing strategy impacts nearly all important SaaS metrics, so don't just 'set it and forget it'.

CASE STUDY: A Look at x.ai's Anti-Lean Pricing

x.ai's mission to build an autonomous AI agent is an undertaking that required about three years of intense R&D – an approach Dennis R. Mortensen, the company's CEO, calls decidedly anti-lean⁷. To follow through with this approach, x.ai had to raise substantial funds to validate the idea and build the initial model. And to sustain their efforts, they had to be sure to find customers not only willing, but eager to pay for the product.

To land on the perfect pricing plan, Stefanie Syman and Brian Coulombe, VP of Customer Experience & Communications and Customer Acquisition Director respectively, rolled out three pricing tiers. Here's how they did it.

- Personal -	- Professional -	- Business -
\$0 free	\$39 /month	\$59 /user/month
JOIN THE WAITLIST	SIGN UP	COMING SOON
<ul style="list-style-type: none">✓ Max of 5 meetings per month Amy and Andrew will schedule only 5 meetings for you per month✓ Waitlist Right now, there's a long line for the free edition. Get on the waitlist and hang tight as we make more room	<ul style="list-style-type: none">✓ Unlimited meetings per month Let Amy and Andrew schedule ALL of your meetings✓ Immediate access to your AI assistant Sign up and get going TODAY✓ Personalize the assistant's signature For example: Andrew Ingram Sara's scheduling ninja	<ul style="list-style-type: none">✓ Place the AI assistant on your own domain For example: amy@yourcompany.com✓ Unlimited meetings per month Let Amy and Andrew schedule ALL of your meetings✓ Team invoicing A single invoice for your team. Easily add/remove users✓ Customize the assistant's signature Full control including the ability to remove x.ai, if you like✓ VIP contacts Allow close contacts to set up a meeting with you by emailing Amy and Andrew directly. No need to ask you first.✓ VIP contacts Allow close contacts to set up a meeting with you by emailing Amy and Andrew directly. No need to ask you first.

The Right Price Starts with the Right Mindset

"It's our mission to democratize the personal assistant," says Syman. "That's how we've thought about our product from its inception, and what flows out from that idea pretty immediately is the need for a price point that's digestible to the professional individual."

"Not only do we think that everyone should be able to have an AI personal assistant for meeting scheduling," Syman explains, "we see x.ai as a core piece of the technology infrastructure in much the same way that email is a core piece of that infrastructure. It's part of the suite of tools that you need to operate, to be a functioning professional, whether you're a big-economy professional, the CEO of a startup, or someone more junior who is just entering the workforce."

"Thinking about the problem with that mindset, knowing and believing that we're actually changing norms in a way that email changed norms, leads you to quickly understand where you need to land on price in terms of scale," Syman says. From there, the team was ready to dive into the logistics of the pricing problem.

Anti-lean Pricing Depends on the Details

"We are a very data-driven company," says Coulombe. "And, we really did our research on pricing." The team conducted in-depth research on customer personas and use cases and tapped beta customers for specific feedback on pricing scenarios. They used surveys as well as in-person,

roundtable-type discussions to collect customer input, which was then factored into the development of the pricing structure.

The Audience

'We've spent the time to build a really nicely defined persona for our core customer,' says Coulombe. "We've clearly envisioned who that is and know details such as their job titles, company size, location, pain points and what it takes to get someone not only interested in the product but also willing to pay for the Professional (or mid-tier) edition."

To reach this initial group of beta customers, x.ai gained exposure through organic word of mouth as well as a formal referral program. "Many of our initial beta users were CEOs at small startups who were using Amy and Andrew to schedule meetings with people in similar roles at other companies," Coulombe explains. "That was an effective way to get our product in front of more of the right people. We also started a program to reward our professional customers who referred us to colleagues."

The company also enjoyed some good press, but most of their beta user growth was the result of a product-led approach that focused on creating "scheduling nirvana" – or Amy-to-Amy meetings – for customers. "Growth has really been driven by our existing customer base encouraging other folks in their network to sign up," adds Coulombe.

Finally, the x.ai team also made use of the B2C2B approach. "Ours is one of those products that easily translates from someone starting the Professional edition, and then selling

the product through to the rest of their team," Coulombe says. "Once the team is using it, then other departments and company partners get wind of it, and before you know it we've onboarded a larger business."

The ROI

Whether considering individual or company-wide use cases, the x.ai team focused on delivering value as a key component of the pricing strategy. "We all know that no one, except maybe SVPs, gets a personal assistant anymore," says Syman. "We also know from our research that the people with the most scheduling-related pain are among our most successful customers. For these people, our mid-tier price point is not a big deal because the product delivers a huge value (in the reduction of their pain) that greatly exceeds the actual price."

The x.ai team uses a clear demonstration of this ROI in their marketing. "Emphasizing the ROI is one of the things that stands out as a total no-brainer," says Coulombe. "If we agree that it typically takes about three-and-a-half five-minute emails back and forth to schedule a meeting, and we assume that you're scheduling eight meetings a week, it's simple to do the math and see that you're spending close to ten hours a month just scheduling meetings."

Why the Professional plan?

Say you make **\$90,000** a year and schedule **8** meetings a week. Each meeting takes about **3.5** emails to negotiate. And you spend **5** minutes writing each scheduling related email.

That's
8 x 3.5 x 5
=
2.33 hrs/week
or about 10 hrs/month
spent scheduling
meetings

Your
hourly rate:
\$90,000 plus 40% tax & overhead
÷ **1,800** work hours in a year
=
~\$70/hr

Which means you're investing
\$700 every month into scheduling.

At that rate, \$39/month (**or 1,700% ROI**) seems like a bargain. We could be biased of course.

"On top of those numbers, we can also add in the 'switching' cost, cognitively," adds Syman, "of your day being constantly interrupted by endless chains of scheduling emails."

The Long-term Business Vision

The team also sought to understand how different price points might relate to one another. "Our starting point was conveying that the core product utility is the same across all editions," says Coulombe. "But then we were able to start thinking through which users would be interested in which features."

"Once we established our definitive editions, we ran the data to look at the percent split between each and then did the math to determine which scenario would drive the most revenue over time," explains Coulombe. "So, for example, would a \$39 midrange price point anchored by \$59 high-end price point end up driving more revenue than, say, a \$39 price point anchored by a \$69 offering?"

Pricing is Always a Work in Progress

By closely examining what each segment of x.ai's target market would be willing to pay, the team was able to build out a pricing structure that delivered an irrefutable value to both the customers and the company. And while they are happy so far with the market response, they acknowledge that pricing is always a work in progress.

"In any pricing scenario, we do our best to make informed choices, but we don't present our results as the perfect solution," says Syman. "We used the data to make the best decision we could, but we expect the strategy to evolve."

For now, however, both Syman and Coulombe feel like they've hit a sweet spot. "We are indeed a software company and not a service company," Coulombe says. "We're beyond something like Netflix or Spotify and more in the realm of Dropbox. Our price point fits nicely between being something that everyone can afford and really utilize and something that is so premium that only a few people can afford it." And if the company's Wall of Love Notes is any indication, x.ai's customers agree.

PART II: Pricing at the Expansion Stage

INTRODUCTION

During the seed stage, you asked fundamental questions like who will pay for the product you just built and how much will they pay for it. You wondered how prospective customers would derive value from that product. You had limited data to work with, but endless possibilities.

Now that you've reached the expansion stage, you have a well-defined product, you know who you're selling it to and you have customers who are paying you for it. You are now in land grab mode. Your goal is to scale as quickly as possible, and keep a sustainable burn rate in the process. At this point you have more complexity in your business: your product has improved since you launched, you have collected more data and you have far more people involved in decision making. At this point in your company's lifecycle, it's important to assess and perfect your product's pricing and packaging.

Part II: Expansion Stage walks you through important pricing, packaging and positioning decisions at this vital stage so you can extract value from existing and prospective customers while delivering a fairly-priced product for which they are willing to pay.

CASE STUDY: SaaS Pricing Best Practices from 90 Companies

The idea of putting pricing online terrifies many B2B software entrepreneurs. They worry about competitors seeing their pricing, and then undercutting them. They question whether they could ever simplify their pricing enough to share it with the public. And they fear giving enterprise customers yet another negotiating lever to squeeze out lower prices.

Despite these fears, many of the hottest software companies like InsideSales.com, MarkLogic and AppDynamics now put their pricing online. InsideSales.com, a sales acceleration software company valued at \$1.5B as of March 2015, makes for an interesting case in point. As recently as June 2014 they shunned communicating their pricing online, and required web visitors to fill out a detailed form in order to request pricing. Now they prominently display their platform editions and price points.

June 2014
InsideSales.com/pricing

Product Pricing
Improve Your Sales Performance with the First Comprehensive Sales Acceleration Platform

To maximize the revenue impact InsideSales.com takes acceleration technology can provide your business, a product expert will contact you to discuss your specific needs.

Discover what sales acceleration technology can do for your business. Some customers have seen a 30% revenue increase after just 90 days.

Request your custom price quote now.

Get Pricing

Full Name:

Work Email:

Direct Phone:

Company:

Department: Select Your Department

Title: Select Your Title

What CRM do you use?: Select Your CRM

INFOLINE INFORUM stronger PUNCH ISVAC Market

December 2014
InsideSales.com/pricing

Sales Acceleration Platform Editions and Pricing

Pricing for Salesforce editions only

Edition	Price	Description
Communicate™ ESSENTIALS	\$125	The industry's leading sales communications platform per user, per month billed annually
Elevate™ MOST POPULAR	\$195	Elevated performance through motivation and effectiveness per user, per month billed annually
Accelerate™ MOST POWERFUL	\$295	Accelerated results with Neuralytics™ per user, per month billed annually

May 2016
InsideSales.com/pricing

Sales Acceleration Platform Editions & Pricing

Edition	Price	Description
Communicate™ STARTER EDITION	\$95	The industry's leading sales communications platform per user, per month billed annually
Elevate™ MOST POPULAR	\$195	Elevated performance through gamification and effectiveness per user, per month billed annually
Accelerate™ MOST POWERFUL	\$295	Accelerated results with Neuralytics™ per user, per month billed annually

InsideSales.com could have had several motivations for making their pricing public, the most likely ones being lead qualification, optimization opportunities and SEO improvement.

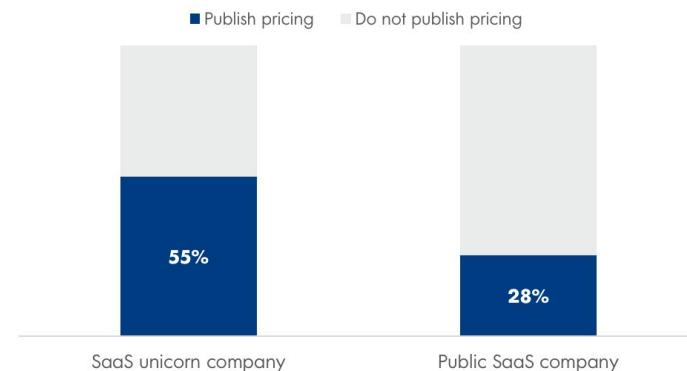
- » **Lead qualification:** Clearly sets expectations on how much InsideSales.com will cost so that less serious prospects or those looking to be educated do not waste the sales team's time.
- » **Optimization opportunities:** Allows InsideSales.com to test different package configurations, messaging and price points, and see how each change impacts conversion. From the screenshot above, InsideSales.com has clearly optimized its pricing page from December 2014 to today, lowering the price of its entry offering from \$125/user/month down to \$95/user/month and adjusting its call to action from "Let's Talk" to "Try For Free."
- » **SEO improvement:** One of the first things a buyer wants to know is price, and so prominent placement in search terms related to "cost" and "price" has the opportunity to drive substantial incremental inbound traffic.

2016 Software Pricing Page Benchmarking Study

We investigated whether, when and why top software companies like InsideSales.com decide to publish their pricing. The benchmarking study covered 87 of the largest public and private software-as-a-service (SaaS) companies in the US, including 54 publicly traded companies and 33 private unicorns. Four key learnings emerged from the study, which expansion stage software companies can apply to setting their own pricing strategies.

Learning 1: SaaS unicorns are 2x more likely to publish their pricing compared to public companies

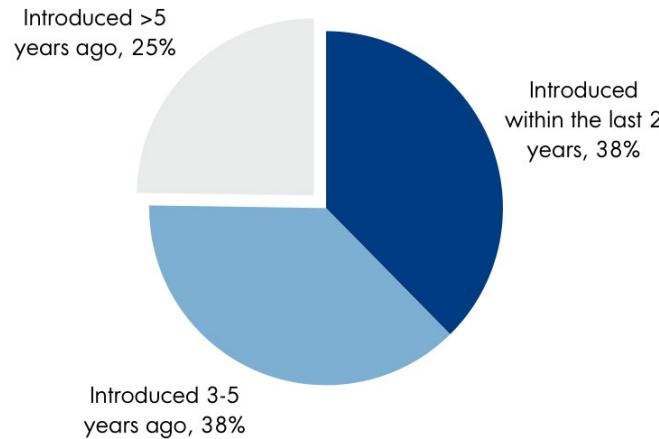
More than half of SaaS unicorns in the study publish their pricing, compared to only one-quarter of public SaaS companies. This likely reflects that it is easier to publish pricing as a younger company, before excess complexity, legacy processes and over-customization makes doing so less and less practical. It also indicates that many companies struggle with deciding whether to publish their pricing online, as there is not one right answer on the subject.



Learning 2: Pricing pages are gaining traction, and they have gotten much better of late

Among the companies that currently publish their pricing, three-quarters started doing so within the past 5 years, based on data procured from the Wayback Machine internet archiving service. Two-in-five started publishing their pricing only in the last two years, including InsideSales.com as well as LivePerson, MongoDB and Slack. This indicates that

pricing pages are gaining traction, and there will likely be even more in the near future.



Meanwhile, the pricing page pioneers have dramatically improved and optimized their pages in recent years. Let's look at HubSpot, the inbound marketing and sales software company that went public in 2014. Back in 2011 they published an early pricing page, which advertised three different packages (Basic, Professional and Enterprise) with a complex pricing structure that varied based on the package and number of contacts.

Fast forward to today. While they've kept a similar underlying packaging and pricing structure, HubSpot has seriously simplified the way they communicate their pricing and the options available to prospective customers. HubSpot has also improved the way it guides prospects into the ideal package, for instance by honing the way they describe each package and by highlighting the most popular option.

October 2011

[Hubspot.com/pricing](#)

Basic

A complete marketing system for hosted small businesses. Includes website management, blogging tools, lead nurturing, email marketing, inbound marketing analytics and other tools. [Read more](#)

Professional

A fully integrated marketing system for mid-sized companies. Includes everything in the basic plan plus customizable out-of-the-box integrations with your existing website, blog or CRM platforms. [Read more](#)

Enterprise

Our most advanced system for enterprise level companies. Includes multichannel analytics, behavior-driven communications, advanced A/B testing and full integrations via API webhooks. [Read more](#)

	< 100 Contacts	100 - 1K Contacts	1K - 10K Contacts	10K - 100K Contacts	100K - 500K Contacts	500K - 2M Contacts	Unlimited Contacts
Basic	\$200/m	\$300/m	\$400/m	\$700/m	-	-	-
Professional	\$400/m	\$700/m	\$1,000/m	\$1,400/m	\$1,800/m	\$2,400/m	-
Enterprise	\$700/m	\$1,000/m	\$1,400/m	\$1,800/m	\$2,400/m	\$3,000/m	\$5,000/m

< 500 Visits per Month Unlimited Visits

* Prices listed are per month. All products require an upfront annual contract.
** For a PDF version of HubSpot's full feature set, please click here: [HubSpot Product Editions](#).

[Request A Demo](#)

May 2016

[Hubspot.com/pricing](#)

Basic

An entry tool for those new to Inbound marketing

\$200/month
billed annually

Required Onboarding \$600

100 Contacts
+\$100/mo per 1k extra

[CONTACT SALES](#)

PRO

MOST POPULAR OPTION

An integrated solution for professional marketers

\$800/month
billed annually

Required Onboarding \$3,000

1,000 Contacts
+\$50/mo per 1k extra

[CONTACT SALES](#)

Enterprise

An advanced platform for marketing teams

\$2,400/month
billed annually

Required Onboarding \$5,000

10,000 Contacts
+\$10/mo per 1k extra
Have over 500k Contacts?

[CONTACT SALES](#)

Learning 3: Publishing pricing is not exclusively for consumer or SMB market segments

Even among companies that publish their pricing online, it has been a standard practice to hold back on showing the price of the Enterprise package, and instead push the buyer to call for a quote.

We found that several companies have eschewed such conventional wisdom, including MarkLogic, Splunk, LogMeln and AppDynamics, and publish annual price points of \$20k and up. Consider AppDynamics, an application performance monitoring and management software company valued at \$1.9 billion as of November 2015. AppDynamics publishes pricing for up to 25 units, which costs a buyer \$3,300 per unit per year, or a total of \$82,500 per year. Doing so helps AppDynamics stand out in a competitive market against a host of both legacy players and younger vendors. The company does hold back on publishing price at the very top end, but only for extra large enterprises.

The screenshot shows the AppDynamics pricing page. At the top, a banner says "One platform. Free for a single app." Below it, a note states: "All plans start with a free 15-day trial of AppDynamics Pro. No credit card required." The page is divided into two main sections: "Lite Plan" and "Pro Plans".
Lite Plan: Described as "Great for a single application" and "Free forever upgrade to Pro any time". It includes a note: "First 15 days includes a free trial of AppDynamics Pro". A "Sign up for FREE now" button is present. A list of features includes:

- ✓ Limited features and units
- ✓ Limited data retention
- ✓ Access to our documentation, AppDynamics Community, and University resources

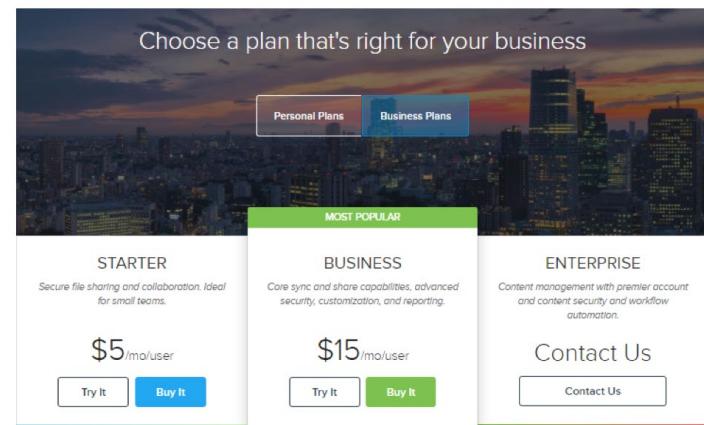
Pro Plans: Shows two options:

- 1-10 units: \$3,600 per unit / yr.
- 11-25 units: \$3,300 per unit / yr.

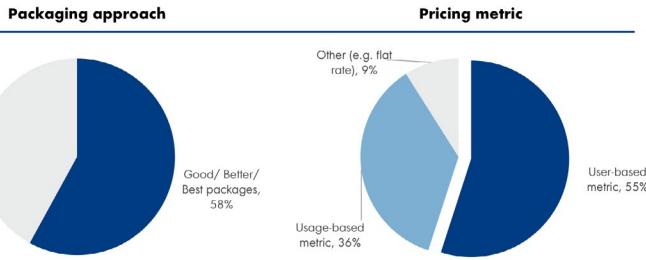
Both plan descriptions mention "Additional discounts available with a 3 year commitment". A "Start FREE trial" button is located between the two plan sections.
Enterprise Customers: A note at the bottom left says: "ENTERPRISE CUSTOMERS – need more than 25 units? We offer volume discounts." A "Contact us for a quote" button is at the bottom right.

functionality and higher prices as a customer moves from Good to Better to Best. With a Good/Better/Best line-up, a budget conscious or lower usage buyer can start out small with a light version of the product. It then provides an upsell path as customers become hooked and want to unlock more advanced features.

Of the companies that publish their pricing, 58% of them have some form of Good/Better/Best packaging. This includes InsideSales.com and HubSpot, as mentioned earlier, plus many others like Box, Domo and Salesforce.



Software companies should similarly select a pricing metric that allows them to scale ACV as a customer becomes more engaged. The traditional approach for doing so has been the seat or user-based pricing metric. User-based pricing is still the most widely used, according to our study. Of the companies that publish their pricing, 55% of them price based on the number of users. This includes Salesforce, DocuSign and Slack to name a few examples.



Interestingly, 36% of the companies in the study had a usage-based pricing metric. Usage-based pricing, when done right, aligns closely to the value a customer receives from the product and enables full monetization of customers who use the product the most. Companies with usage-based pricing employ a broad array of company-specific metrics, spanning from number of nodes and private repositories (Docker) to GB of usage (Splunk) to number of contacts (HubSpot).

Takeaways for Expansion Stage Software Companies

While no single approach works for all, signs point in favor of publishing pricing as an expansion stage software company. Doing so offers tremendous opportunity to optimize packages, messaging and price points, especially important to get right in order to scale most efficiently. It drives more inbound leads, and then helps pre-qualify those leads so that a time-crunched sales team can focus on the prospects who will actually open their wallets. And it only gets harder to do as time goes on, and ever more complexity creeps into the business.

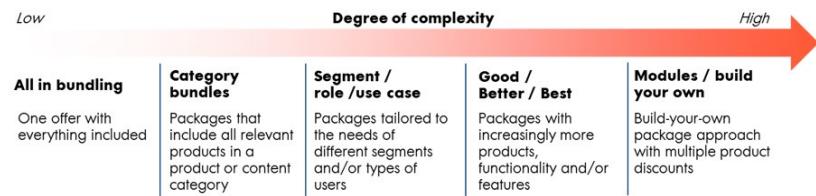
PACKAGING STRATEGY: Rethinking Your Product Tiers

Packaging redesign consistently drives large revenue gains for expansion stage SaaS companies. By the time a company hits the expansion stage, they have spent hefty sums of money to improve the product and scale their go-to-market function, and now have a hodge-podge of customers at varying stages in lifecycle and product maturity. Yet, their packaging strategy likely still reflects the legacy way of doing things rather than the current reality.

When done correctly, a packaging redesign both accelerates a land-and-expand business strategy and improves the customer experience. Meanwhile, it helps the sales team speak to the needs of different customer segments and helps the product team prioritize investments in new features and services.

2016 SaaS Packaging Benchmarking Study

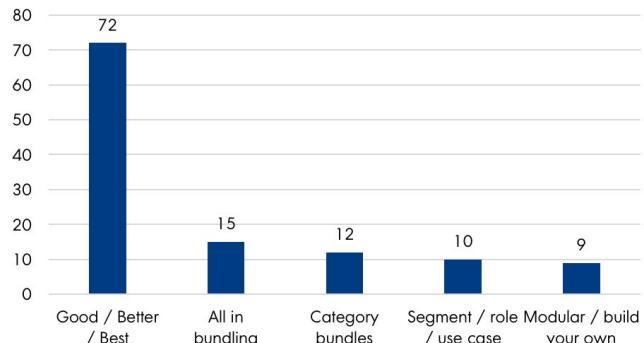
To start your packaging redesign, first you'll need to choose the right packaging model. You can select from five main options, which vary in degree of complexity: All-in bundling, Category bundles, Segment / role / use case, Good / Better / Best and Modules / build your own.



We investigated how popular these packaging models are at leading software companies, and when and why each approach is most successful. The benchmarking study covered 104 of the largest and fastest growing SaaS companies in the US that publish their packaging and pricing online.

Popularity of different packaging strategies

From an analysis of 104 SaaS startups*



*Numbers add up to >104 because packaging strategies are not mutually exclusive

Good/Better/Best packaging appears most frequently at SaaS companies that publish their pricing. 72 of the 104 SaaS companies in the study, including Slack, DocuSign, Lesson.ly and InsideSales.com, employ some type of Good/

Better/Best strategy, and for good reason. This strategy keeps things simple while creating a natural upsell path for customers. Plus it allows companies to reach a variety of potential customers wherever they are in their product maturity, from those who just need the basics to those who want it all.

Slack, the communication platform for teams, exemplifies a Good / Better/ Best strategy and puts increasingly more features, functionality and services in higher tier packages. The entry package (Free) includes core features that any user would need, such as messaging on desktop and native apps, two-person calling and limited message archiving. By placing a limit on message archiving, Slack has a natural fence or trigger point to entice heavy users to make the leap from Free to Standard. Meanwhile, they reserve advanced, enterprise-focused features for their Plus and Enterprise tiers such as single sign-on, compliance exports, SLA and 24/7 support.

Tier	Price	Description	Action
Free	\$0	For teams wanting to try out Slack for an unlimited period of time	Your current plan
Standard	\$6.67	per active user, per month billed annually	Upgrade Now
Plus	\$12.50	per active user, per month billed annually	Upgrade Now
Enterprise	Coming 2016	per active user, per month billed annually	Contact Us

Free includes
All of these great features:

Standard includes
Everything in Free, and:

Plus includes
Everything in Standard, and:

Enterprise includes
Everything in Plus, and:

All-in bundling, the second most popular strategy, works best in situations when a company leads the market in its breadth of products, but not necessarily depth within specific applications; when they can credibly claim to give a fully

integrated solution; and when customers value the solution but are unclear about separate components.

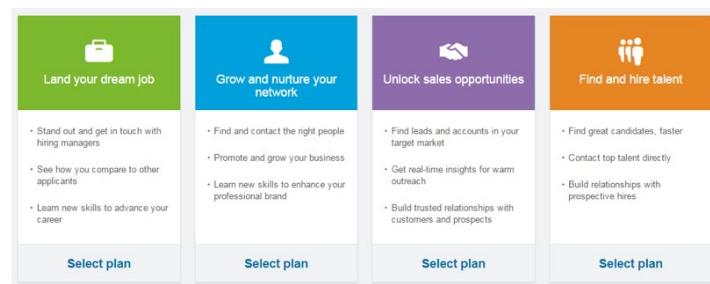
Microsoft Office, the classic example of all-in bundling, was not always the leading desktop application software. As recently as 1995, they fell behind Wordperfect in market share for word processing software and Lotus 1-2-3 for spreadsheets. While Microsoft did not have best-of-breed point solutions, they hypothesized that they could win by offering an integrated suite of 'good enough' products at a cost-effective bundled price. Their decision paid off handsomely of course, and by 1998 they had dominant market share across the entire suite including email, word processing, spreadsheets and presentations.

Category bundles, a close third in popularity, comes into play when products align with a mix of different budget holders and compete against different alternatives, and therefore selling an all-in solution becomes impractical. It's also employed when a company has deep functionality within specific categories, and can credibly offer multiple best-in-breed solutions rather than a full suite.

Salesforce.com, the cloud software provider, exemplifies category bundling. They offer separate packages to compete in a wide array of product categories, including CRM, Customer Service, Email Marketing, Community, Analytics and Mobile App Development. Within each of these categories, though, Salesforce typically offers Good/Better/Best packages to create an upsell path and reach a wider variety of potential customers than they could serve with a single offering.

A segment / role / use case strategy is slightly rarer to find. It is most effective when a company offers a platform that, with slight modifications, can serve a diverse assortment of use cases that have a very different willingness to pay. For instance, a product that serves both business and consumer or both internal and external facing business needs. It typically coincides with a strong product marketing function, which has deep knowledge of how different audiences derive value and can message appropriately to each audience.

LinkedIn, the professional social network, has pursued a segment / role / use case strategy. They build off the same foundation (i.e. access to their network of professionals), but have created separate packages and product marketing that speaks to how different audiences can benefit from it. Those audiences include recruiters, sales teams, marketers, business leaders and individuals looking for a new job.



The **modular / build your own approach** was the least common in the study, which was not surprising. This approach too often feels like nickel-and-diming to the customer, lengthens the sales cycle and puts a huge burden on the sales force. It normally is a fall back plan when, for

instance, a portfolio was built through acquisitions that don't fully fit together or a sales team is hell-bent on upselling existing customers rather than going after new customers. Success requires customers and sales knowing enough about the product to handle complexity, or a customer base having very specialized needs.

Twilio, the cloud communications company valued at over \$1 billion, represents one of the few successful examples of a modular approach. They emphasize a simple pay-as-you-go approach to their pricing with separate fees for voice, client, messaging, International, SIP trunking, Network Traversal, Support and more. This works for Twilio's business because it aligns well with their overarching brand and it allows them to seamlessly scale pricing to service everyone from small startups to very large global companies.

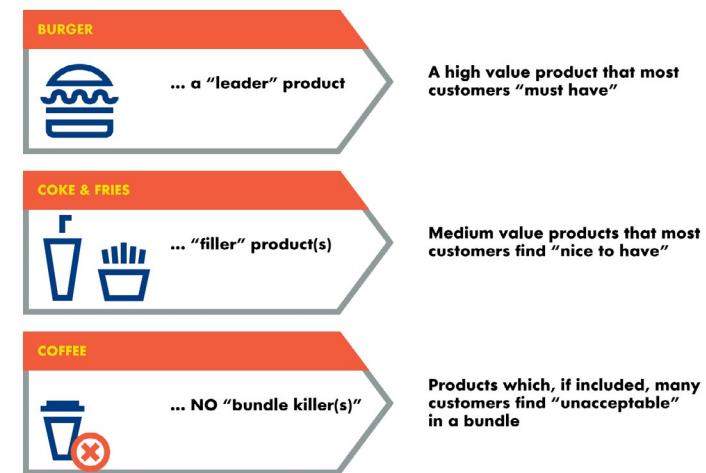
It also feeds into Twilio's recently announced add-ons marketplace, which allows customers to access pre-integrated partner technologies that are billed through Twilio and all charged on a pay-as-you-go basis. These include IBM Watson Message Insights, Whitepages Pro Caller Identification, Payfone TCPA Compliance and more.



Building Good / Better / Best Packages

Once you've settled on a packaging strategy – and in all likelihood have selected a Good/Better/Best approach – you'll then need to decide what functionality should be included in each tier. Doing so requires product research into the value of your different features and services, and how that value differs by customer segment.

When I work with companies, I help them categorize features into "leaders", "fillers" and "bundle killers"⁸ for each customer segment, a best practice preached by consultancy Simon-Kucher & Partners.



The "leaders" are the hamburger in your McDonald's value meal; they are what everyone wants and comes to you to buy. These must be included in all packages.

⁸ <https://www.slideshare.net/Zuora/simon-kucher-pricing-strategies-for-tomorrow-slideshare>

The “fillers”, meanwhile, are the fries and coke. They are seen as nice-to-have and sweeten the deal. Customers will cherry pick fillers when sold a la carte, and so a bundle helps drive uptake and a higher average revenue per user (ARPU).

The “bundle killers”, on the other hand, are the coffee of your value meal. Few people want a value meal with a burger, fries, coke AND a coffee, and adding coffee to the value meal might even turn people off from buying entirely because they’d end up with more than they need. There will be a handful of caffeine-starved customers who do want the coffee, though, and they can purchase it a la carte outside of the value meal.

It is critical to do this leader/filler/killer categorization by segment, especially for companies that sell into the SMB, Midmarket and Enterprise. Advanced features like integrations, SSO and advanced security may be mission-critical for the Enterprise buyer looking for a corporate-wide solution, but would be a “bundle killer” for the mom-and-pop buyer who needs only the core functionality.

While it takes time and research to get right, a SaaS packaging redesign consistently leads to revenue growth and more satisfied customers. The expansion stage is the perfect time to pull the trigger on it. You’ve built the product, scaled the go-to-market function... isn’t it time to revisit the packaging?

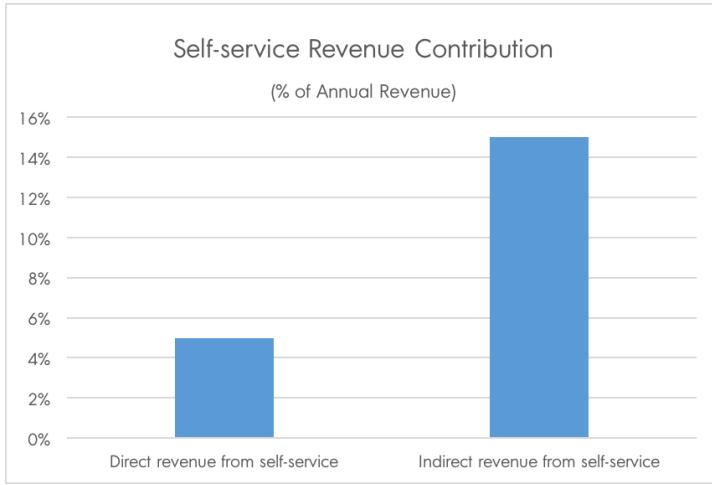
ACQUISITION TACTICS: How a Self-Service Package Can Drive Product Qualified Leads

One Boston-based software company built a gold mine, then nearly shut it down.

They had nurtured a modest online self-service product (priced starting at \$99 per month) and planned to discontinue it so they could focus on going after the more profitable enterprise segment, which had ACV’s north of \$20k. At first glance, the decision to shut down self-service looked sound: it brought in only 5% of their annual revenue, operated at negligible profitability and could hinder negotiations for enterprise deals.

When the GM investigated more closely, she noticed something unexpected. Many of the company’s largest and most profitable enterprise customers actually started with the self-service product. These customers had wanted a frictionless proof of concept for a team or department to use before rolling out the solution across the entire enterprise. If it had not been for the self-service product, these customers would have selected a competitor, and likely stayed there.

In fact, 15% of the software company’s annual revenue was effectively from product qualified leads (PQL’s), customers who started on self-service, but exhausted the functionality and upgraded to enterprise. The indirect revenue from these PQL’s was three times the direct revenue the self-service product brought in. And self-service was not even built with this goal in mind!



The GM quickly changed course – the team shouldn't kill self-service, they should replace it. She set out to build a new self-service product with a clear focus on becoming a self-funding product qualified lead engine.

Field Sales is Not the Only Route into Enterprise Customers

This Boston-based software company was not alone in wanting to kill self-service. The conventional wisdom calls for software companies that sell into large enterprises to build out a field sales motion and to push the field sales team toward large opportunities. That way, each opportunity has a solid chance of recovering the related customer acquisition costs and sustaining a healthy payback period, a crucial metric for attracting venture funding.

The 2013 Pacific Crest SaaS Survey, which included responses from 155 SaaS companies, adds stats to this

conventional wisdom. It found that 70% of software companies with \$25k-\$100k in initial ACV relied primarily on field sales to drive customer acquisition, as did 92% of software companies with \$100-\$250k in initial ACV. [1] Software companies with lower initial ACV, on the other hand, went to market primarily through inside sales (\$5k-\$25k) or online distribution (<\$5k).

Yet, the field sales motion comes with roadblocks to rapidly scaling a startup software business: it is expensive, restrictive and slow.

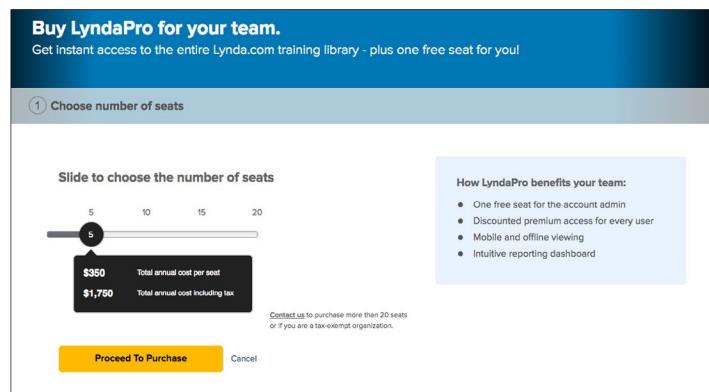
- **Expensive:** That same Pacific Crest survey found that field sales companies spend \$0.96 for each dollar of initial ACV from a new customer, while online distribution companies spend only \$0.55.
- **Restrictive:** This sales motion attracts only a small portion of prospective customers – sophisticated buyers ready to make an enterprise purchase. These prospects are most likely familiar with the market landscape and will involve procurement in the process.
- **Slow:** It takes significant time and resources for the field sales team to reach out to enterprise buyers, schedule initial meetings, go on-site to demo the product and negotiate back and forth.

Creating a PQL engine, on the other hand, will help attract a wider set of prospects and build up a base of high-conversion enterprise leads for the field sales team to call on.

Learning from Successful Peers

Several enterprise-focused software companies, including Lynda.com and Optimizely, have successfully incorporated PQL engines into their portfolio to broaden their reach and accelerate sales velocity. These PQL engine products come with a robust feature set at an attractive starting price, but they have usage restrictions to limit cannibalization risk.

Lynda.com, the on-demand training provider acquired by LinkedIn, aims their PQL engine at small teams within Fortune 1000 companies. The product includes full access to Lynda.com's training library, a reporting dashboard and account administrative controls, and it can be bought online for up to 20 seats at a time.



When a company hits the 20 seat limit or has multiple teams simultaneously using Lynda.com, it triggers an opportunity for the sales team to pitch an enterprise-wide deal to HR leadership. The enterprise product comes with comparable features to the PQL one, but covers all employees in an

organization and includes a handful of enterprise-specific features like single sign-on, integrations and more detailed reporting. This sales motion has enabled Lynda.com to gain numerous internal champions and momentum within Fortune 1000 companies, and then eventually kick out incumbent learning solutions.

Optimizely, the A/B testing and personalization platform, has similarly introduced a PQL engine to generate a paying lead funnel for their enterprise product. Until recently, Optimizely had only two versions of their testing solution, a free Starter version and a customized enterprise version. Then, they added a middle tier PQL engine that offers full enterprise-grade functionality, but at a much lower starting price point and with a \$500 credit to get started.

Starter	Pay As You Go	Enterprise
Free	\$49 per 1,000 MUV	Call Us
All the basics. Absolutely free. No credit card required.	Complete functionality without the commitment. Pay only for what you use.	Solutions tailored to your needs. Sign up for an annual commitment and receive a lower price.
Sign up today and get \$500 in free credit.		
Test It Out	Get Started Now	Talk To Us
Create & Launch Experiments		Start making decisions with actionable data. Optimizely lets you see your ideas come to life quickly. Halt neverending debates with your team and boss.
A/B testing	✓	✓
Multivariate Testing	✓	✓
Instant Rollouts	✓	✓
Mobile Developer Tools	✓	✓
Multi-page Testing (funnel)	✗	✓

The PQL pricing is completely “pay as you go” and the price scales as the customer rolls out Optimizely across more pages on their website, thereby increasing the monthly unique visitors (MUV’s) exposed to experiments. Once the usage of Optimizely hits a certain threshold, the customer becomes a warm lead for the sales team to pitch an enterprise deal and secure an annual commitment. The customer is incentivized to commit to the enterprise contract by the benefits of budget certainty and a lower price per thousand MUV’s.

Keys to Success for Introducing a PQL Engine

Fear of cannibalization holds many companies back from introducing a PQL engine product, and for good reason. The worst possible outcome would be to introduce a new, lower priced product that cannibalizes the enterprise business without delivering on the hoped-for higher acquisition volumes. Getting the PQL engine right and avoiding cannibalization requires a careful balancing act and six major inputs:

- 1. Market segmentation:** Understand the distinct segments and buyer personas in the market, and prioritize which one(s) to target with this new product. Ensure that there is a sizeable enough addressable market opportunity worth pursuing with this introduction.
- 2. Voice of customer insights:** Root the product design and feature set in a deep understanding of needs among both prospects and customers. It

is especially important to identify the features and amount of usage that prospects are willing to give up, but that existing customers could not do without.

- 3. Usage analysis:** Look carefully at usage data among the customer base to set appropriate usage caps or thresholds on the PQL engine so that it does not become overly appealing to existing enterprise customers.
- 4. Online sales dialog:** Build an online sales dialog and checkout process that enable a frictionless purchase. For many software companies, this entails introducing payment by credit card, monthly recurring billing options, click through agreements and automated onboarding.
- 5. Margin analysis:** Run the numbers to confirm that the PQL engine will have at least break-even profitability. It does not need to be a profit driver on its own, but there should be enough margin that it can fund itself and sufficient demand generation investments.
- 6. Sales alignment:** Align the sales and customer success teams to operate in this new model, and remove any barriers to the PQL product adoption. For instance, onboarding support for the PQL product should set the stage for the eventual enterprise sale, rather than just training the customer on the product they initially bought.

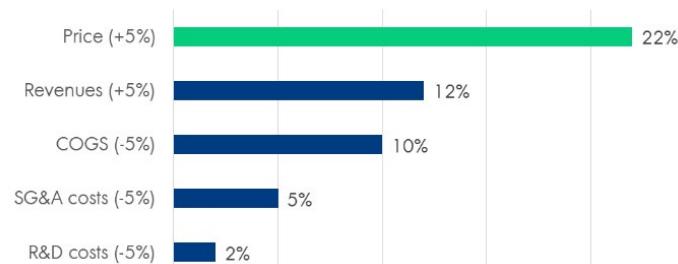
CASE STUDY: When & How to Raise Prices Without Losing Customers

Successful price increases drive a far higher profit improvement than any other initiative. Across a study of Fortune 500 companies, for instance, Andreas Hinterhuber found that a 5% price increase leads to a 22% improvement in operating profits. Compare that to a 5% improvement in SG&A expenses, which only moves the bottom line by 5%.

A successful price increase helps you acquire better customers, who are more serious about using your product and less likely to churn. It dramatically improves the lifetime value of a customer, which in turn boosts the LTV: CAC ratio. Plus, it allows startups to build a more sustainable business model, and hence be more in control of their own destiny.

Take StatusPage, the leading hosted status page provider acquired by Atlassian. As Co-Founder Steve Klein describes in detail, StatusPage started out with two price points – free and \$49/month. Over time, they removed the free tier and

Impact on EBIT from a 5% improvement in...



Source: Hinterhuber (2004). Towards value-based pricing – An integrative framework for decision making. *Industrial Marketing Management* 33 765-778.

managed to raise prices by up to 8x with minimal impact to conversion or churn. This was a key lynchpin in their efforts to grow average revenue per user (ARPU) by 2.4x and reach a \$2.5M annual revenue run rate over the course of only two years.

BigPanda and pricing for fair value exchange

I recently had a chance to connect with Dan Turchin, the VP of Growth Strategy at BigPanda, about their recent pricing increase and how he approaches software pricing. BigPanda, which in May announced a Series B funding round closing at \$21M, centralizes and automates IT incident management. Looking at BigPanda's current pricing page compared to what it looked like a year ago, they implemented a significant change to both packaging and pricing.

Turchin has two fundamental philosophies when it comes to pricing: it should be as transparent as possible and it should align with value. He explains, "The goal behind any pricing model is to achieve a fair value exchange...What's driving our process is not revenue maximization per se, it genuinely is a spirit of partnership and trying to figure out what is the right balance and what features are unlocking the right value." In other words, when you invest in creating new features and driving more usage of your product, it creates an opportunity to extract some of that added value in the form of higher prices.

What struck me about Turchin's approach is how rooted it is in truly understanding BigPanda's customers and what

they value. This type of deep voice-of-customer research is regularly talked about, but rarely done at most startups. As Turchin puts it, "We're trying to have enough conversations with customers to get feedback on how they associate value with BigPanda and how to translate that into the most simple, transparent, logical way to consume the value."

After the pricing change, Turchin and his team made sure to closely monitor the response and make adjustments as needed. "We measure sentiment on pricing mostly by the adoption cycle – how quickly a customer gets into production and how quickly the deployment grows. We're definitely seeing onboarding times and time to incremental purchase go down," he notes. Seeing those metrics trend in the right direction gave the team confidence that their pricing change did not have a negative impact on customer success, and was a smart course of action.

Room to Raise Prices

In my current role and past life consulting companies on their pricing strategies, I've picked up on five signs that a SaaS company is due for a price increase. They all hark back to Turchin's notion of fair value exchange, and being able to extract more money only when you are delivering sufficient value to your customers.

» **Sign 1:** Prospects don't push back on pricing. Does your sales team have the authority to discount, but rarely uses it? When you send a proposal to a prospect, do they comment on everything except for the price? For better or worse, software buyers have been

conditioned to negotiate, especially when procurement gets involved. If they don't negotiate with you, you're probably leaving money on the table.

- » **Sign 2:** Customers tell you how cheap you are. Have customers ever told you that they are surprised you are able to make money with your current pricing? Do they (favorably) compare you to other solutions in their tech stack, mentioning how they prefer you but pay 2x, 5x, 10x the price for another piece of technology? Or, my personal favorite, are customers satisfied even if they only implement a portion of your software because they see the investment as a 'drop in the bucket'? In general, when customers are consistently happy with your pricing, they will not balk at paying more.
- » **Sign 3:** You create a very high ROI. Does your software demonstrably save time, reduce waste or increase your customers' revenue? Are you capturing enough of that value creation? As a rule of thumb, software companies can safely capture 10-20% of their economic value.
- » **Sign 4:** You have not touched pricing for years. Did you set prices a while ago and have not given them another look since? Or, worse, have you not changed pricing since you launched? Do you have a strong point person in charge of evaluating and managing your pricing strategy? Many SaaS companies put a 5-7% annual price escalator in their contracts, and so 3 years without raising prices could mean you fell 20% or more behind competition.

- » **Sign 5:** You added new features without monetizing them. Have you invested in extending your product capabilities, but gave those new features away for free to create goodwill with customers? Do you continually do that? Customers are more open to price increases when you can show a track record of using that extra money to invest in improving the product.

Don't Shortchange Implementation

With pricing, it pays to sweat the details. Too often a pricing strategy gets rigorously analyzed and debated by an executive team, but then nobody pays attention to the nitty-gritty details of successfully implementing it. I don't need to repeat the cautionary tales of Netflix (2011) and Zendesk (2010).

Nailing implementation and minimizing backlash requires telling a good story about your pricing change, and giving customers a choice about what to do. As Turchin comments, it's best to err on the side of transparency and view it "as an opportunity to engage with the customer; here's what we're doing, here's why." Specifically you should:

- » **Validate your course of action:** First, confirm whether an across the board price increase is the best strategy. Could you add a new edition instead, or change the pricing metric to one with more upside?
- » **Communicate why you're raising prices:** Talk about how you have not raised prices for a while, how since the last price increase you've invested in

new features and services or what you plan to invest in going forward. If possible, add metrics that point to the impact of what you've invested in – for instance, the amount of time spent on the platform, the % uptime you've delivered or how quickly you've been able to respond to help desk requests.

- » **Use the pricing change as a marketing tactic:** By pre-announcing a price increase, you can create urgency with customers and prospects about why they should lock-in their rates now before their old prices expire.
- » **Give customers a choice:** Nobody wants to feel strong-armed in a negotiation, and too hardline of an approach is likely to upset your customer base. A better approach is to provide a bounded set of options for customers to choose from. For instance, they could stay at their current plan at a higher rate, or choose to downgrade plans and keep the rate they're paying today, or if they commit within 30 days they could get 10% off a better plan than they have now. This takes some of the sting off and puts the customer in the driver's seat.
- » **Have a plan for existing loyal customers:** Depending on the size of the price increase, it could be difficult to swallow for long-time customers who signed up at a steep discount to the current rate. The first thing to consider is whether grandfathering makes sense. If you are rapidly scaling and doubling your customer base year-on-year, the revenue opportunity from migrating existing customers may not be worth

the effort. If you decide that it is, you should still proactively identify customers who will see especially steep increases and have an account-by-account plan to retain them. Typically if they'll see a price increase beyond 50%, a best practice is to stair-step them so they gradually move up to the new rates rather than swallowing it all at once.

- » **Make peace with not convincing 100%:** If you've done the math on a price increase, you know exactly how many customers you can lose in the process and still break-even. Set a realistic target for how many customers you think will leave as a result, and recognize the team for a job well done if that target is achieved. Keep in mind that some of those 'lost' customers will eventually boomerang once they try an alternative and realize the grass wasn't actually greener.

PART III: Pricing at the Growth Stage

INTRODUCTION

At the seed stage, you had very little data, but endless possibilities to innovate and experiment with pricing. In the awkward teenage years of the expansion stage, you were in land grab mode and trying to come up with a packaging and pricing model that would allow you to rapidly scale.

Now in the growth stage, your business is much larger and more mature. You're more risk averse than you were at previous stages of growth since you have a large base of existing customers and a steady stream of revenue to worry about. At this point you've professionalized many areas of your business, bringing on functional experts for important capabilities like product marketing, product analytics, localization, sales operations and so on. But odds are you still don't have resources dedicated to pricing, and would benefit greatly from bringing on your first pricing lead.

As a natural byproduct of growth, your business now has much more complexity than before. Your product line has expanded and you are selling to a wider variety of potential customers. The upside of complexity is opportunity for pricing optimization, for instance through how you present your pricing online, how you introduce flat-rate pricing and how you incentivize your sales reps.

Your success has inspired others to follow in your footsteps, putting a target on your back. These budding competitors have co-opted your ideas and started selling competing products at cut-rate prices. You'll have to decide how to compete against new entrants – whether that means fighting back on price, holding firm or retreating.

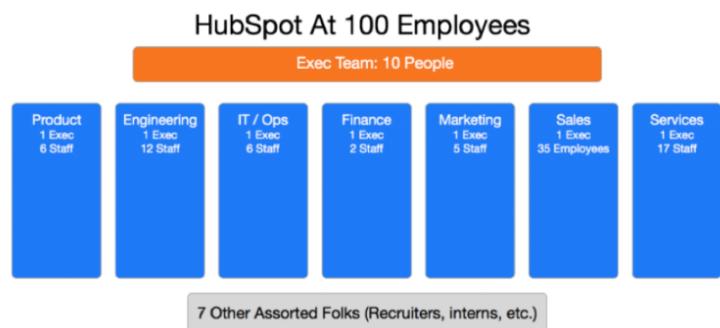
Part III: Growth Stage walks you through important pricing, packaging and positioning decisions at this vital stage so you can remain a large and enduring software company for years to come.

CASE STUDY: Survey of 1,000 SaaS Executives Reveals Major Blind Spot Around Pricing

As companies hit milestones in their growth, they naturally bring on functional experts to help optimize their businesses. Experts have seen it all before and can quickly recognize patterns and work more productively than generalists. They get the job done right the first time. What's more is that functional experts who own a few specific areas can be held accountable when their metrics don't move up and to the right – there's only one throat to choke so to speak.

HubSpot and InsightSquared⁹ very deliberately hired such experts as they were growing their teams from 0 to 100. Among a SaaS startup's first 100 hires, there should be seven or more department executives (Product, Finance, Marketing, Sales and so forth).

Jason Lemkin of SaaStr¹⁰ also notes that SaaS companies should bring on functional leads to build out important capabilities around outbound lead gen (BDR/SDR),



9

<http://www.insightsquared.com/2015/07/hubspot-at-100-employees/>
<https://www.saast.com/what-your-first-100-hires-will-look-like/>

10

sales operations, demand gen, field marketing, product marketing, content marketing and more.

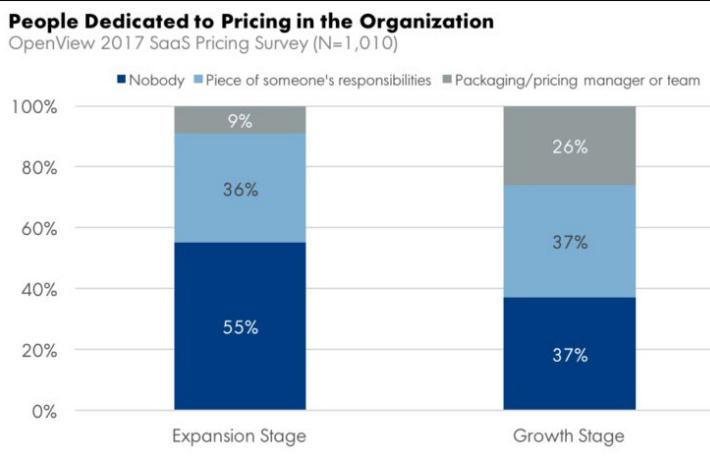
There's one key gap both in Lemkin's advice and the above org chart. There's not one resource in either of these models to specifically own pricing. Consequently, all too often pricing becomes an ad hoc, gut decision, and fails to get the dedicated attention, research and testing required for its optimization. SaaS companies make thoughtful, data-driven decisions on so many facets of their business. **Why is pricing such a blind spot?**

According to a recent OpenView survey of more than 1,000 SaaS executives across different stages of growth, we found that among expansion stage SaaS companies (1-\$20M ARR), 55% say they have nobody in their company who handles pricing as part of their job description. For the remaining 45%, pricing tends to be a small piece of someone's responsibilities, rather than a dedicated focus area. Growth stage companies (>\$20M ARR) fare somewhat

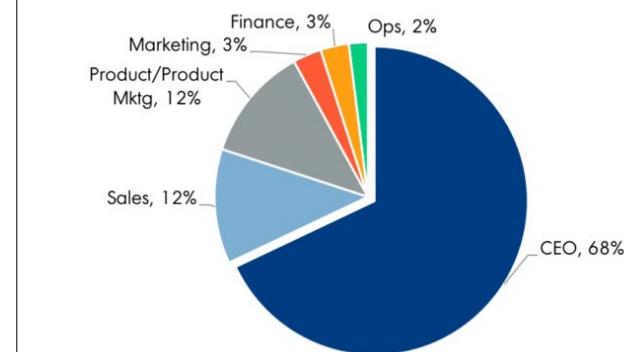
better, but still have significant room for improvement. Even at this stage of growth, 37% of companies fail to hire a specific resource to handle pricing and only 26% say they have a packaging/pricing manager on staff.

Our survey results show that companies that fail to hire a specific pricing resource rarely conduct market research on customer value and pricing, nor do they A/B test pricing changes. These types of analyses reveal a company's price-value position in the market and whether there's an opportunity to increase prices, which drives a far higher profit improvement than any other initiative. **Put simply, companies without dedicated pricing resources are literally losing money because of it.**

With so few folks actually working on pricing, you might suspect that companies don't think pricing is worth the attention of management. But the opposite is true. More than two-thirds of expansion stage companies say that CEOs or company leadership ultimately own pricing and make pricing decisions.



Who Owns Pricing at Expansion Stage Companies
OpenView 2017 SaaS Pricing Survey (N=1,010)



SaaS CEOs are blindly making decisions on a topic that is fundamentally important to their long-term success without the subject matter expertise required to succeed. It's high time to put someone in charge of pricing. But when you finally make that move, what attributes should you look for in a new hire and where should they sit within your organization?

What to Look for in Your First Pricing Lead

Value-based pricing sits at the nexus of the customer, competition and costs. A great pricing lead needs to have a handle on each of these. First, and most importantly, they need a relentless focus on the customer. They should be insatiably curious about customer needs, common pain points, different segments in the market, how the buying process works and how the value proposition resonates. Understanding the competition and costs are both teachable skills, and a qualified candidate needs only the aptitude to get up to speed on both rather than specific in-depth knowledge.

Since pricing touches on so many different parts of an organization, a great candidate will be a relationship builder and a strong communicator. Look for someone who's willing to spend a week sitting with the Sales team or going on ride-alongs with customers to fully grasp how pricing works "on the ground." Meanwhile, make sure that person has credibility with the Product team and is passionate about the product roadmap. Ideally, pricing will come to have a strong influence on the roadmap since it collects the richest set of data on what customers need and value.

Let's not forget that your pricing lead should also be analytically savvy and comfortable with both qualitative and quantitative techniques. For instance, they should be able to jump into your Salesforce and billing data to unearth opportunities as well as design surveys to extract pricing insights from your customers.

Where Pricing Should Fit in Your Organization

There is no widely accepted wisdom around where pricing belongs, and I've seen it roll up to Marketing, Product, Sales, Finance and Operations. In many organizations, it becomes a part of Product Marketing, which similarly rolls up into different departments depending on the company. Here's what to consider for your company.

Owner	Benefits	Drawbacks
 Marketing	<ul style="list-style-type: none">Great at incorporating pricing into the broader value proposition and messagingAlready own the website and pricing page	<ul style="list-style-type: none">Lean toward strategies that drive the most lead gen (e.g. freemium, self-service)Less involved in influencing the roadmap
 Product	<ul style="list-style-type: none">Best grasp of the product and roadmapLikely already doing customer developmentIdeal for companies that regularly launch new modules or features	<ul style="list-style-type: none">Not as strong at communicating the pricingMay overly focus on features & functions rather than customer needs and value
 Finance	<ul style="list-style-type: none">Typically analytical and data-driven; strong at financial modelingHave the best handle on costsLaser-focused on optimizing profitability	<ul style="list-style-type: none">Less customer-focused and involved at influencing the roadmapTake a cost-plus approach rather than understanding willingness to payMay be so focused on profitability
 Sales	<ul style="list-style-type: none">The closest to the customer, constantly hearing about needs and pain points	<ul style="list-style-type: none">May be too close to the customer – want to have options for every unique customer needToo oriented towards new logos
 Ops	<ul style="list-style-type: none">Comfortable working across departmentsGreat at designing processes and technologyStrong grasp of opportunities data	<ul style="list-style-type: none">Less customer-focused, not regularly speaking with customersLess aligned with their day-to-day job responsibilities

SETTING PRICES: Seven Tips to Optimize Your SaaS Pricing Page

The hottest SaaS businesses now put their pricing online, according to a [recent OpenView study](#)¹¹. In fact, SaaS 2.0 companies are twice as likely to publish their pricing compared to older public SaaS businesses. But the decision to publish pricing is a rather recent one. In fact, most organizations that put their pricing online have only started doing so over the past few years. And the added publicity around product pricing has encouraged these companies to invest heavily not only in determining the actual prices to offer, but how those numbers should be displayed online.

Despite the recent rush to publish pricing, there is a dearth of resources around how companies should actually build optimized packages and pricing pages. Recent questions I've been asked include:

- » **Should I put the most expensive plan on the left or the right of the page?**
- » **Do I need to publish Enterprise pricing too or should I tell people to "contact us"?**
- » **Do the prices need to end in \$9 or \$9.99?**
- » **How do I growth-hack my way to higher conversion?**

These are all valid questions. And getting the answers right can significantly improve and optimize your pricing pages

and conversion rates. So here, I'm sharing my top 7 tips for optimizing pricing pages. And, while I'm all for nifty growth hacks, these tips go back to basics to help you get the fundamentals of your pricing page right. If your pricing page doesn't have the basics down, no amount of growth hacking will get you to a large and enduring business. Special thanks to [Steven Forth](#), Co-Founder of TeamFit and pricing guru, for adding his expertise.

1. Reinforce your value proposition, over and over again

Tell me if this sounds familiar. You visit a pricing page and it says "Select your plan." There are three plans usually something like Starter, Professional and Enterprise. Each plan has a long list of features associated with it, and of course Enterprise has the most. Not terribly exciting or differentiated, right?

Now consider [Typeform](#), the online form and survey software. Typeform makes it exceedingly clear (and human) as to who should buy each of their plans, and why they should buy. The pricing page comes across as helpful, rather than sales-y, and keeps things simple while providing all the necessary information. Their Basic package is for those who want to "get to know Typeform", and it offers "the essentials for getting better answers online" – ie Typeform's main value prop.

Or, you could upgrade to Pro, which offers "more power & personalization," like customized endings, branching and skip logic, email notifications and more. And then

Typeform Pricing		Hootsuite Pricing			
BASIC (free)		Professional \$20/mo	Team \$105/mo	Business Starting at \$400/mo	Enterprise Contact for pricing
Get to know Typeform The essentials for getting better answers online.		10 social profiles 1 user	20 social profiles 3 users	50 social profiles 4 users, up to 10	Custom Solutions
Start free	Upgrade	Free 30-Day Trial <small>Free features, plus:</small>	Free 30-Day Trial <small>Professional features, plus:</small>	Request a Demo <small>Team features, plus:</small>	Request a Demo <small>Customizable features:</small>
PRO \$29 /mo * Billed annually for 1 user More power & personalization Customize endings, send email notifications, branch or skip questions, and more...	PRO + Starting at \$59 /mo * Billed annually for 1 user Need more seats ? Advanced features for brands Remove Typeform branding, invite team members, redirect respondents, and more...	Upgrade	Upgrade	<ul style="list-style-type: none"> • Message scheduling • Real-time analytics • Content suggestions • Social sweepstakes • RSS integrations 	<ul style="list-style-type: none"> • Custom analytics reports • Bulk scheduling • Team assignments • 6 contest templates • 1 Custom Branded URL • 4 social media certification • 24/7 priority support • Extended training (60 mins)
		Learn more	Learn more	Request a Demo <small>Learn more</small>	Request a Demo <small>Learn more</small>

there's Pro+, which has "advanced features for brands" and includes options to buy multiple seats per account.

2. Incorporate more than one value metric into your pricing

In setting up your pricing, you'll want to have a main value metric that you believe best reflects how customers perceive the value of your product. This will become the main unit that determines what price a customer pays. (In all likelihood, it's number of users, but make sure that's right for you!). The thing is, you don't need to stop there. The other value metrics on your list can become fences between different packages, guiding your users and indirectly influencing the price customers pay.

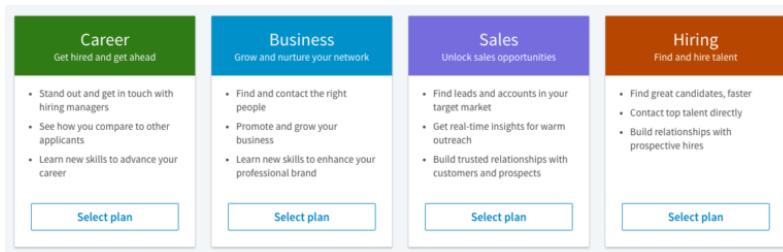
Take Hootsuite, the social media management software, as an example. Hootsuite's main value metric is clearly the number of users. Other value metrics on their list also include the size of the team that would access Hootsuite, number of social profiles, number of app integrations, number of custom branded URLs and number of social campaigns.

Each of these metrics becomes a fence between their Personal, Team, Business and Enterprise packages, which enables Hootsuite to charge 10 times the price per user for businesses compared to individuals.

3. Speak directly to your different target buyers and personas

Your customers don't all look the same. Neither should their pricing. Having one-size-fits-all pricing automatically means that some potential buyers will come to your website and feel like you do not serve people like them. A best-in-class pricing page speaks clearly to the different needs, personas and use cases of your target buyers.

I especially love how LinkedIn has tackled this. As a first step, they ask how you want to unlock the power of LinkedIn – is it to get hired, to grow your network, unlock sales opportunities or find talent? Depending on your objective, they offer a plan (or plans) with the exact things that will make you successful.



This wasn't necessarily a no-brainer path for LinkedIn to take. Their packages share a number of features in common – InMail™ messages, unlimited people browsing, who's viewed your profile and advanced insights. That would have made it easy for LinkedIn to offer broad sweeping packages with more features and InMails™, but it would likely fall flat for a large portion of the market.

4. Ensure that each package has a clear role in your revenue generation

Write out the role you want each package to play in your revenue generation and set clear targets for what percentage of customers will join each tier, how many people will migrate upwards in tiers, what level of churn is acceptable for each and so forth. As Steven Forth described to me, "If a tier is not doing its job in your revenue model,

ask if you got the design of the tier (and its fences) wrong or if the revenue model needs to be adjusted. Pricing should be tracked daily and management should discuss it at least monthly."

Here's an example: You offer a freemium package as a way to attract as many users as possible, and 1,000 people sign up for it. How do you know whether that's good and in line with your business objectives? What's your goal for how many of them should convert to paying customers? How much support burden and other costs did you assume that each user will take up? How much have you budgeted to acquire freemium users? Setting clear goals for freemium will make it much easier to decide how to evolve the product over time to drive the best outcome for your business.

5. Emphasize benefits rather than just features

Your Product team probably built out a detailed matrix of what features go in each tier so they could build out all the right feature permissions and settings. Did that feature matrix get dumped on your pricing page as-is, leading to confusion and eye-rolls across your target buyers? Be honest.

There is a better, more human approach to consider. Let's look at Trello.

Free

A simple and powerful way to get things done.

\$0

Free, forever.

Learn More

- Unlimited boards, lists, cards, members, checklists, and attachments.
- One [Power-Up](#) per Board
- Attach files up to 10MB from your computer, or link any file from your Google Drive, Dropbox, Box, or OneDrive.

Business Class

App integrations, team overviews, and more security.

\$9.99

per user/month (when paid annually)

Upgrade Team

Enterprise

For large companies managing multiple teams across Trello.

Learn more about Trello Enterprise. Schedule a custom demo for your team today.

Contact Us

While their pricing page is maybe a tad lengthy, the feature messaging is crisp and compelling. Instead of saying that their Business Class package comes with role-based controls and permissions, Trello explains that you can “maintain control with immediate, one-click access removal for former members” and can “stay secure by controlling who can create public or private boards.” That sounds much more useful and interesting to a buyer, and gives a sense of what using Trello would be like.

6. Put lingering fears to rest

For many businesses, your pricing page is your top-performing sales rep. It has the difficult job of convincing your buyer to pull the trigger on their purchase, and do so right this second instead of continuing to research other options.

Slack smartly puts buyers’ fears to rest with their “Wall of Love,” a rotating compilation of tweets from their users emphasizing how much they love the product, which shows up right under their pricing. And below that they showcase that they have thousands of happy customers, including world leading consumer and B2B brands. In the words of the Barefoot Contessa, Ina Garten, “How bad can that be?”

From our Wall of Love

Alex Bullington @acbullen10n

Been able to accomplish 100x more work over the last several months because of @SlackHQ. Efficient, seamless for our Arbit dev team.

3:02 PM - 2 Aug 2016

Pawel @cynicalgrinch

So many people ask me if remote answer no because @SlackHQ in 7:03 AM - 27 Jul 2016

< More at our Wall of Love >

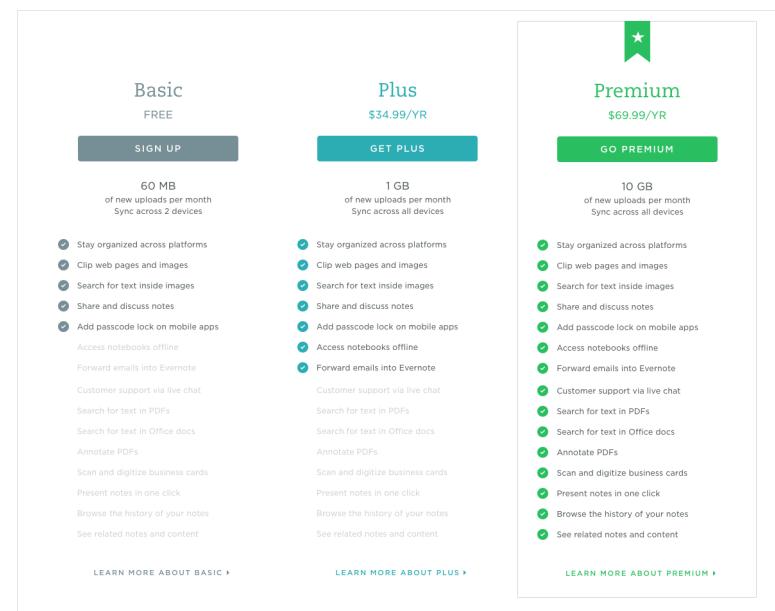
Other ways to overcome lingering doubt include having mouseover text explaining features you think users might not understand, listing out answers to frequently asked questions and / or enabling a live chat service to help buyers who get stuck.

7. Nudge buyers with insights from behavioral psychology

At this point it goes without saying that companies can nudge buyers into making different, more profitable decisions through behavioral psychology insights. There are a ton of resources on the subject. Here are a few to keep in mind:

- » **Anchoring:** Introducing a higher tier, more expensive package to get buyers to trade up
- » **Guiding:** Highlighting the most popular plan to visually guide buyers to selecting it
- » **Simplicity:** Minimizing the number of choices on the screen to reduce buyer paralysis
- » **Charm prices:** Experimenting with prices that end in "9" – although this doesn't always work in B2B!
- » **Deal effect:** Making certain packages look like a bargain through pricing or communication

Evernote, for instance, focuses buyers' attention on their Premium plan, which costs \$69.99 per year. They make it look like a great deal because it includes 10 times the amount of new uploads (10GB vs. 1GB) for only 2 times the price of their Plus package, and double the number of features (16 features in Premium vs. only 8 in Plus). Who wants to pass up on that deal?



CASE STUDY: What SaaS Companies Can Learn from Gym Membership Pricing

Recently sign up for a gym membership as part of a lofty new year's resolution? Me too. Well, just a little more than a month into my new membership, I've already failed in my attempt to work out a few days each week. That said, I was wholly willing (and even excited) to sign up for a new gym membership despite past failed attempts to get my money's worth from the local Boston Sports Club. And (thankfully) it's not just me. An article published last year by the New York Times¹² reports that every January many Americans sign up for the gym but hardly visit in the months following.

The article goes on to cite supporting research from economists Stefano DellaVigna and Ulrike Malmendier who studied usage patterns at three Boston gyms. The economists found that on average new members paid over \$70 per month for their membership, but used the gym only 4.3 times over the course of each month (which amounts to \$17 per use). They concluded that most customers would have been better off paying per use, which on average costs only \$10 per visit. Doing so would have saved these consumers \$600. Despite this simple math, we continue to pay a flat rate (rather than per visit) for a service we may or may not ultimately end up using.

And this paradox isn't specific to gym memberships; I see it time and again in subscription businesses. Notable examples include the Uber Plus program, an Amazon Prime-like subscription offering unlimited UberPool rides in select cities;

12 <https://www.nytimes.com/2015/01/11/upshot/how-to-make-yourself-go-to-the-gym.html>

Apple's iPhone Upgrade Program, which is essentially an iPhone subscription; and graze, a subscription snacking service.

Whether or not consumers get their money's worth from these unlimited services remains to be seen. But the fact of the matter stands that we gain some sort of intrinsic value from an unlimited membership. That's primarily because of the following benefits of a flat monthly or yearly rate:

- 1. Removes barriers to usage:** We do use something more when we have a flat rate compared to when we pay by the use. For instance, in 1996 AOL replaced its metered dial-up pricing where you paid by the hour with a simple flat rate. AOL found that the amount of time their customers spent online nearly tripled as customers got used to the internet being "always on". Part of why we pay extra, then, is to motivate ourselves to start going to the gym more than we currently do.
- 2. Overestimation:** While we do end up using a flat rate more than pay-per-use, we start with inflated expectations and don't ultimately use it as much as we think we will. DellaVigna and Malmendier, for instance, found that gym goers anticipated that they would work out an average of 9.5 times per month, but only went 4.3 times. (But, hey, 4.3 times is a whole lot better than 0 trips to the gym!).
- 3. Insurance:** With a flat rate, we have peace of mind that our budget won't skyrocket during months of high usage. This is doubly critical in the Enterprise space where Finance and Procurement start getting involved in a purchase decision.

- 4. Taxi-meter effect:** We actively feel discomfort when we have to link each and every use to an increased price and then mentally justify whether it was worth it.
- 5. Convenience:** We just don't want to be bothered with paying each and every time.
- 6. Community:** Paying for a membership makes us feel part of a group or community (we belong to our gym), whether or not we use it as much as we want to. The Guardian has smartly embraced this benefit with their Guardian Members program, which is a subscription service for their readers to support their journalism, attend live events and get invited to behind-the-scenes functions.

SaaS businesses can apply these same insights to deliver a better customer experience while also increasing revenue. Here are three ways how.

- 1. Introduce unlimited (Enterprise) plans for high usage customers:** At a certain point, a large Enterprise customer doesn't want to have to worry about tracking their usage and have their monthly bill fluctuate up and down. Many buyers would prefer to lock in a flat rate unlimited plan, even if it comes at a premium to the price that they would pay given their typical usage. You can use these flat rate plans either as a fence to upsell customers to a higher tier package, a tool to charge more to customers whose usage has flat-lined, or as an incentive to get customers to commit to longer-term contracts. SurveyMonkey, as an example, smartly uses unlimited usage as a means of fencing between their

Basic (100 responses), Select (1,000 responses) and Gold (unlimited responses) packages.

- 2. Test a three-part tariff:** As Tomasz Tunguz points out¹³, a three-part tariff balances some of the benefits of linear, usage-based pricing without the drawback of stunting usage. Rather than charging for each unit of usage, in a three-part tariff you would have a base platform fee (which includes a set amount of usage) plus a separate fee for additional usage. HubSpot smartly employs this structure in their pricing with a fixed monthly fee and an additional usage fee for more marketing contacts. Their three packages include different pre-set amounts of usage (100 contacts; 1,000 contacts; 10,000 contacts) as well as different overage fees (\$100/mo., \$50/mo., and \$10/mo. per 1k extra contacts) as a way to steer customers into the best-fit package.
- 3. Sell overage protection:** Many developer tools, such as Logz.io in the log analytics space, incorporate daily usage volume into their pricing structures. However, for some customers, usage will fluctuate significantly from day to day or from month to month, which could lead to pesky overages. To solve that customer problem, Logz.io offers overage protection as a feature in their paid plans.

For companies still charging by use, I hope you'll think about creative ways to introduce membership and flat rates into your offerings. These models could not only help you make more money, but might actually make your customers happier. What's not to like about that?

COMPETITIVE STRATEGY: How to Compete with the Next Big Thing

Only a few years ago, you were the company everyone talked about. You created a groundbreaking software category, attracted huge sums of venture funding and expertly scaled ARR. Just as an IPO was starting to look feasible, you hit a roadblock.

Now there's a new cool kid on the block. This budding competitor co-opted your brilliant idea and started selling it at a cut-rate price. They've slowed your growth down to a halt and seem to copy you at every turn – ripping off your cutting-edge new feature and borrowing that brilliant new messaging you spent so much time perfecting.

You've only got three strategic options to compete and get your business back on track. You can 1) fight back, 2) hold firm or 3) retreat. Each has completely different implications for your pricing strategy.

Option 1: Fight Back

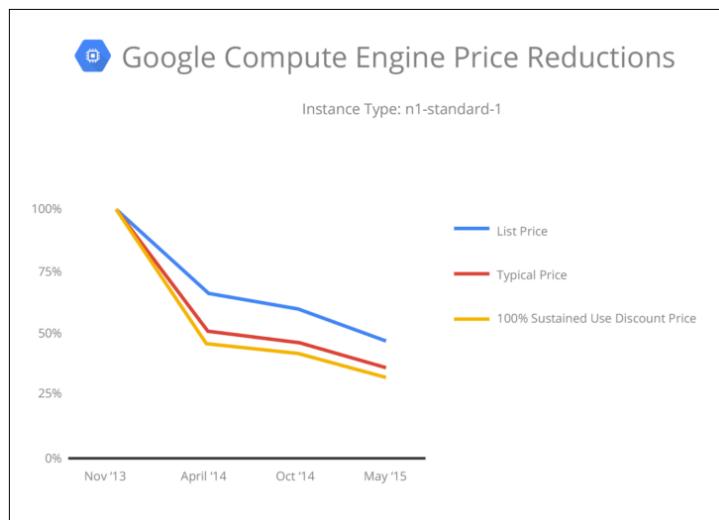
The most obvious way to compete is by fighting back on price. Starting a price war feels great, don't get me wrong. It's something that Sales can do almost immediately. It helps your team feel like they're finally winning deals again, and puts your arrogant competitor back on their heels.

In fact, research from Simon-Kucher & Partners finds that up to three-in-five companies admit to being in an active price war. They almost always blame the price war on competitors, but if they were to look internally, would probably realize they had a hand in either causing or escalating it.

I rarely advocate for price wars, particularly in saturated markets where there is little volume left. Price wars typically erode profitability for entire industries and leave everyone worse off than before. They discourage investment and innovation. That said, there are a limited set of conditions when a price war may become a viable strategy.

1. Secondary revenue streams are in sight, enabling you to re-balance monetization from one side of the market to the other.
2. The market is poised to grow dramatically and you expect costs to come down accordingly due to economies of scale.
3. You have a sustainable cost advantage and can withstand lower prices better than competitors.
4. Network effects create a winner-takes-all market and you need low(er) prices to attract a sufficient number of users to benefit from said effects.
5. The end game is to exit the market and you want to become enough of a nuisance that competitors will be tempted to acquire you.

Perhaps the most widely known SaaS price war is in cloud storage. Google, Amazon and Microsoft have repeatedly traded shots on bringing down the price of cloud computing services. This wasn't by accident. Each of them have secondary revenue streams in mind, and getting a customer on their cloud likely means further monetization opportunities down the road. They also recognize that cloud computing is a rapidly growing market, with some analysts estimating a 26% CAGR over the next 5 years. In other words, these companies can afford to take a short-term hit with their pricing given the potential for long-term gains from customers they acquire in the process.



If these conditions don't hold true for your business, however, you should consider a more narrow strategy: **a fighter product**. A fighter product is a stripped down version of your core offering at a lower price point. Its goal is to help

you compete for the price sensitive segment of the market without (overly) cannibalizing existing customers who are happy to pay a premium price.

The fighter product strategy commonly appears in the B2C world. Take Procter & Gamble¹⁴ for example. As described by the Harvard Business Review, in the 1980's P&G had two premium diaper brands, Pampers (#1 in market share) and Luvs (#3). They suddenly faced rising competitive pressure from private label, which started buying market share through cut-rate prices. Rather than engage in an all-out price war, which would have dented profits, P&G took a more nuanced route. They lowered the price of Luvs by 16% while stripping both cost and value out of the product. They cut Luvs' spend on advertising, product innovation and promotions. At the same time, P&G held firm on price with their market-leading Pampers brand and increased the gap in value between the two brands. This helped P&G compete at both ends of the diaper market without sacrificing the profitability of the overall portfolio.

You can apply these same lessons to SaaS. Perhaps make your fighter product only available for purchase online via self-service, thereby bringing down customer acquisition costs. Make the product as easy as possible for customers to self-onboard and use, minimizing services, support and account management burden. Add limitations around product usage, number of users or features to make it clearly inferior to your core offering while still being attractive enough for smaller or less mature prospects.

14 <https://hbr.org/2009/10/should-you-launch-a-fighter-brand>

Option 2: Hold Firm

Holding firm is a painful strategy, requiring both discipline and patience. It can feel like you're doing nothing, sitting idly by while your competitor eats your lunch. In reality, this may be the most rational option for a business that's operating in a small market or that wants to focus on profitability. Doing it right entails doubling down on customer retention and investing in smart product innovation. It also requires redesigning compensation plans to retain a Sales team that's not allowed to discount and keeps getting beat on price.

First, make it as difficult as possible for competitors to pick off your existing customers. Ensure you have top-notch account support and that you listen closely to their feedback. Migrate loyal customers from month-to-month contracts to longer-term deals, even if it means throwing in some extra services or product in the process. If customers remain happy, they won't be tempted to rip-and-replace your solution and all of the pain that entails. Loyal customers are your bank while you wait out competitors' aggressive pricing. (Once their venture funding starts to run dry, odds are they'll start focusing on profitability and raising prices, too.)

Second, continue to invest in a targeted set of new capabilities that will create more competitive differentiation, justify your premium price point and lead to ancillary revenue streams with existing customers. This again requires significant time and attention collecting feedback from your customers and prioritizing your product backlog based on customer interest and willingness to pay.

Revisit your Sales compensation plans both to correct any misaligned incentives and to continue to retain high performing reps. Perhaps reduce the size of quotas since reps won't have the ability to substantially discount to close deals. Consider adding a price quality element to your plans to further reward reps when deals come in at or near list price.

You can also hold firm by focusing on a few key segments of the market that you know the competitor will have a hard time going after. This entails splitting your market into different categories, for instance based on company size (SMB, Midmarket, and Enterprise), industry vertical or tech stack, and prioritizing pieces of the market. Prioritize the market segments that are attractive to you (i.e. they're large, growing), where you've already seen traction (i.e. you have a high win rate, top-tier logos) and where you have a sustainable advantage. This might be a pocket like Healthcare or Financial Services, for example, which both have specific requirements, deep pockets and a limited appetite for risk.

When you pick your battles and focus on a subset of the market, you have a better shot at expanding your competitive moat with differentiated features, market leadership and a robust partner ecosystem. It increases the amount of effort for competitors to follow you, helping you maintain pricing power.

Option 3: Retreat

Nobody wants to talk about this last option. If all else fails, you may be forced to strategically exit the existing business and sell something else. Oddly enough, this could lead you to actually raise your prices to squeeze more out of legacy customers and fuel innovation in another part of your business. Evidence shows that when a market starts to be disrupted by technological innovation, the least loyal and most price sensitive customers are the first to go. Those who remain tend to either highly value the product or face significant barriers to switching.

AOL makes for an interesting case in point. Back in the early aughts, AOL's dial-up internet business faced stiff competition from broadband, which would of course spell the company's demise. Instead of fighting back with lower prices, AOL raised them from \$21.95 per month to \$23.90 per month. This move generated an estimated \$100 million in additional revenue, which AOL plowed into other ventures like content and advertising.

Similarly, when confronted with a declining subscriber base due to free online competitors, newspapers have responded by raising the price of their print versions. This has helped newspapers buy time to change their business models and invest in new revenue streams like digital subscriptions, paid content, native advertising, membership programs, events and eCommerce. While their outlook is by no means rosy, newspapers have owned up to their future and smartly retreated to sunnier skies.

FROM OUR ADVERTISERS



WHITEY & CO.
What Is the Whitney Biennial?
Miranda July has the answer.



UNIVERSITY OF MINNESOTA
Today's Smartest Researchers
Meet the researchers changing their fields forever.



FORTINBLEAU
Hand-Crafted on a Grand Scale
See the innovations behind the resort's artisanal cuisine.



NCAA
College Sports and Mental Health
Student-athletes face stress. Here's who's helping.



GOTHARD'S INTERNATIONAL REALTY
The Beach Home of Your Dreams
Five perfect beachfront paradises to escape winter.

Choosing the Right Path for Your Business

Each strategic option comes with its own benefits and drawbacks so think carefully before selecting which is best for you. Once you've decided the best path forward, you need to fully commit to seeing it through. A half-hearted execution, with Sales, Marketing and Product all operating independently, will get you nowhere.

CASE STUDY: Learning from Flywheel to Let the Best Sales Reps Inspire the Rest

Stop reading if you don't recognize any of the following sales challenges: a portion of your sales team doesn't have the confidence to pitch large deals, they drop price at the first sign of resistance, or they are unsure of the value of the product compared to competition. These challenges occur regularly at software startups, especially among newer or less experienced sales reps, and they erode your ability to capture full value from the products your team worked so hard to bring to market. They may even be intensified at your startup if you are approaching quarter close or if your sales reps are laser focused on acquiring new logos at the expense of revenue or profitability.

The Problem: Same Sales Situation, Wildly Different Outcomes

I recently polled the sales force of a later stage software company out in the Bay Area to see whether and how much these challenges held back their growth. Each rep was put through a set of sales scenarios with hypothetical customers and had to answer what would be their starting price for the deal, their target price and at what point they would walk away from the deal. I found that reps targeted wildly different prices for the same hypothetical customers. In one scenario prices ranged from \$7,000 to \$13,000 in ACV, in another prices ranged from \$10,000 to \$17,000 in ACV. Most reps generally knew to aim for a higher deal size in the second scenario compared to the first, but again differed on how much more they should charge.

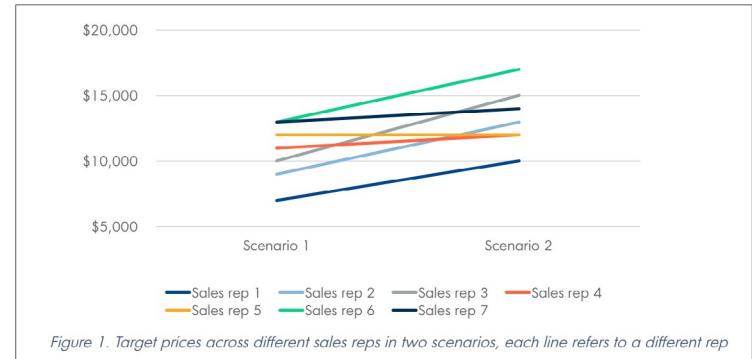


Figure 1. Target prices across different sales reps in two scenarios, each line refers to a different rep

Interestingly, when I dug a level deeper I found that the best performing and most experienced sales reps (and managers) were the ones who targeted higher deal sizes. In other words, the best practices were second nature to the old pros, but never got transferred to newer or less experienced sales reps.

Imagine the financial impact if you could let the best, most experienced sales reps inspire the rest of the sales force. Doing so isn't rocket science, you can take a page out of Flywheel's playbook and tap into the power of transparency and (friendly) competition.

The Solution: Flywheel for Your Sales Team

For the uninitiated, Flywheel is the uber-popular indoor cycling phenomenon and SoulCycle spin off that's sprouting rapidly across the country, hooking users on its expensive and intense classes. Flywheel differentiates itself from competitor SoulCycle by focusing on technology and performance transparency, for instance through their

TorqBoard screens. The TorqBoard screens, which are visible for all to see, track exactly how each individual is performing and how they rank against their peers.



By making riders' performance so transparent, Flywheel holds riders more accountable to their fitness goals and fosters a spirit of (friendly) competition. This makes it much harder to coast by with just an average workout and riders end up pushing themselves far harder than they otherwise would. You too can accomplish this performance improvement at your software company, fostering competition and building confidence across your sales force by giving transparency into what the best performers have been able to achieve.

Implementing Your Own TorqBoard

There are four fundamental steps to implementing this approach across your sales organization: segmentation, data crunching, tool building and iteration.

First, create segments of accounts that share similar characteristics. These segments should tie back to the factors that either already drive – or should drive – differences in spend and willingness to pay across your customer base. The most common segmentation criteria typically include the product line, buyer persona, company size (e.g. number of employees or annual revenue) or geography (aligning to your sales territories). It can be tempting to over-engineer the segments, but these should be kept to a manageable number with enough deal flow to draw meaningful conclusions about best practices.

Next, comes the data crunching. For each segment, analyze the distribution of ACV across recent deals to understand the best practices. A typical approach is to flag the ACV of the top 25th, 50th and 75th percentiles of deals within the same segment. Deals in the top 25th percentile are green lights – that's what reps should be striving for and motivated to achieve. The next bucket of deals (25-50th percentile) are yellow lights – they're perfectly fine, but not quite best practice. The third bucket of deals (50-75th percentile) are red lights – they can be done, but should be avoided if possible. Anything above that should be highly discouraged and only let through with management approval.

Third, build the transparency into systems, tools and sales enablement. This includes both the stoplights (green/yellow/red lights) so that sales reps know what ACV they should be aiming for in new deals and a ranking of reps' performance so that there's transparency and competition across the sales force. These should be incorporated into whatever systems, tools and documents are already in place so that they become embedded in the organization.

Finally, track the results and evolve based on what you've learned to continuously improve. Pending success, you can scale these ideas more broadly across a range of other business practices as well, such as sales compensation plans, pricing strategies and KPI dashboards.

CLOSING

Pricing your product correctly is key to not only winning customers and growing your bottom line, but also paramount if you desire to build a long-lasting, sustainable and scalable business no matter what stage of growth your company is in.

As we've discussed in this book, too many leaders fail to put a process and team in place to develop, test and iterate on their pricing. This lends itself to a pricing strategy that is less than optimized thereby causing you to miss out on valuable revenue.

Zuora's Monika Saha highlighted, and we've shown throughout this book, that the most valuable lesson one can learn when it comes to pricing is that it's constantly evolving. As your company matures and you advance through the stages of growth, keep in mind that the needs of your customers will change, so your product and therefore pricing much change as well.

Whether you are just getting started at the seed stage of growth, have reached the expansion stage or are approaching an IPO, pricing decisions are fundamental to your ultimate success. This book should serve as a constant guide and reminder of the levers you can dial up and down to experiment with your pricing.

We wish you the best of luck with your pricing journey and can't wait to hear about your success!



KYLE POYAR

Director of Market Strategy

Kyle helps OpenView's portfolio companies accelerate top-line growth through deep insights into their customers and market. He partners with leadership teams on operational strategy initiatives such as segmentation, positioning, packaging & pricing, partner programs and new product go-to-market strategy. Previously, Kyle was a Director at Simon-Kucher & Partners, the strategy and marketing consultancy known as the world leader in pricing.

ABOUT OPENVIEW

OpenView is an expansion stage venture firm helping build software companies like Instructure, Kareo, Datadog and Expensify into market leaders. Through our Expansion Platform, we help companies hire the best talent, acquire and retain the right customers and partner with industry leaders so they can dominate their markets. Our focus on the expansion stage makes us uniquely suited to provide truly tailored operational support to our companies. Learn more about OpenView at openviewpartners.com.

"STOP STRUGGLING TO MONETIZE AND FOLLOW THE TIPS AND TRICKS THAT KYLE OUTLINES IN THIS MASTERFUL WORK. MUST READ FOR EVERY SAAS CEO."

– **Madhavan Ramanujam**,
Author of *Monetizing Innovation*,
Board Member and Partner, Simon-Kucher & Partners

"There is no decision a startup founder can make that will impact go-to-market and valuation more than a decision on pricing. I've learned this important lesson over the last eight years and am still learning how to optimize pricing every day. This book serves as a shortcut for other startup founders and operators as they set out to determine a pricing and packaging strategy that is right for their company and customers. OpenView has helped Deputy develop and fine-tune a pricing model that has increased revenue and reduced churn while making our customers happier. How to optimize your pricing is not a lesson you can afford to miss."

– **Ashik Ahmed**, CEO, CTO and Co-Founder, Deputy

"Every founder understands that in order to scale you must find product-market-fit. In SaaS, it's common to assume that the final "S" in SaaS means subscription. And a subscription price might be the best model for your market. But it might not. Founders would do well to identify price-market-fit early on as price-fit may be even more important to scaling a company than product-fit. Kyle Poyer and the OpenView team uncover these lessons and more in this invaluable book."

– **Andy Wilson**, CEO & Founder, Logikcull