# STOP MAKING THESE SEVEN FATAL PRICING MISTAKES

Kyle Poyar

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# WHY HEAR FROM ME?

Kyle Poyar
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- Help OpenView's portfolio companies accelerate top-line growth through deep insights into their market and customers.

- Have supported 15+ of our portfolio companies on monetization initiatives in the past 18 months.

- Previously, was a Director at Simon-Kucher & Partners, the world's leading pricing strategy consultancy.

- Led monetization engagements with market leaders and the world's fastest growing technology companies.

- Wrote the book, *Mastering SaaS Pricing.*

> "This thing called **'price' is really, really important.**
>
> You have a lot of companies that start and **the only difference between the ones that succeed and fail** is that one figured out how to make money, because they were **deep-in thinking through the revenue, price, and business model**."

**Steve Ballmer**
CEO Microsoft 2000-2014
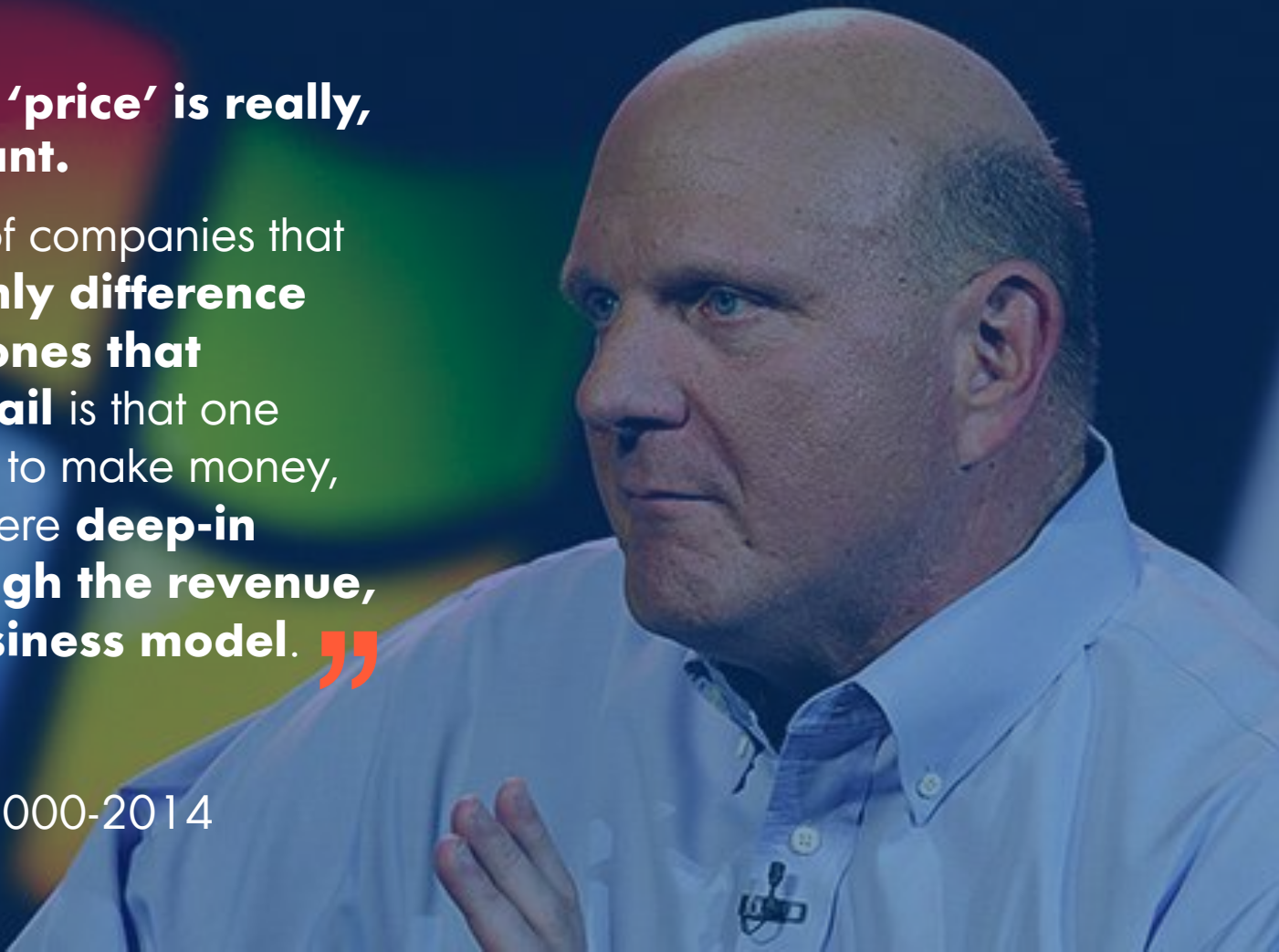
# HAVE YOU OPTIMIZED YOUR PRICING?

# STOP MAKING THESE SEVEN FATAL PRICING MISTAKES

1. You're too cheap

2. Nobody is paying attention to pricing

3. Your pricing isn't value-based

4. You don't have a way to land new customers

5. You don't have a way to expand customers

6. You aren't communicating clearly

7. You're not doing enough experimentation

# #1 YOU'RE TOO CHEAP

# PRICING IS YOUR MOST POWERFUL LEVER

Impact on EBIT From A 5% Improvement in…
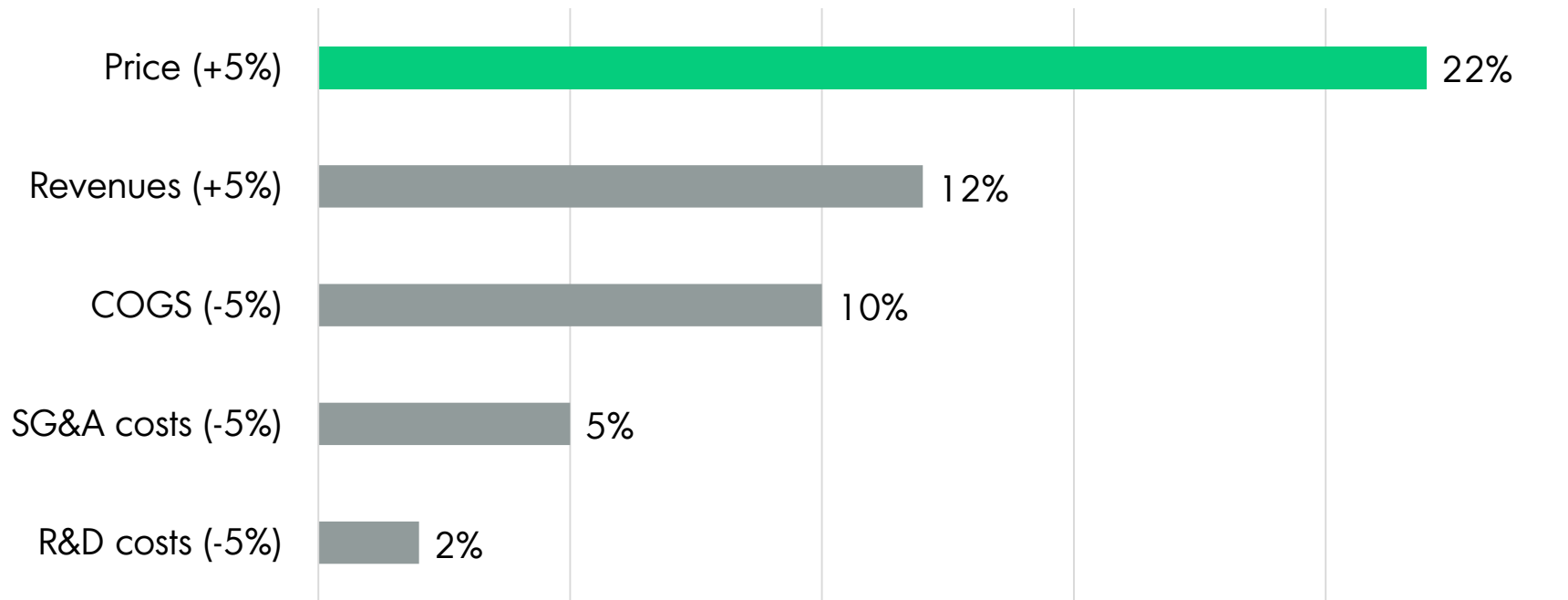


Source: Hinterhuber (2004). Towards value-based pricing – An integrative framework for decision making. *Industrial Marketing Management* 33 765-778.

# DO YOU KNOW WHAT YOUR CUSTOMERS WOULD SAY ABOUT PRICE?

# WHAT I'VE HEAR FROM REAL-LIFE CUSTOMERS

"The price is not material enough to be a factor in the decision. **It is not even a blip on the radar**."

"I'm curious to see how they will monetize… It's inexpensive now, **I don't see how they could be making any money**."

# YOU HAVE ROOM TO RAISE PRICES OVER TIME

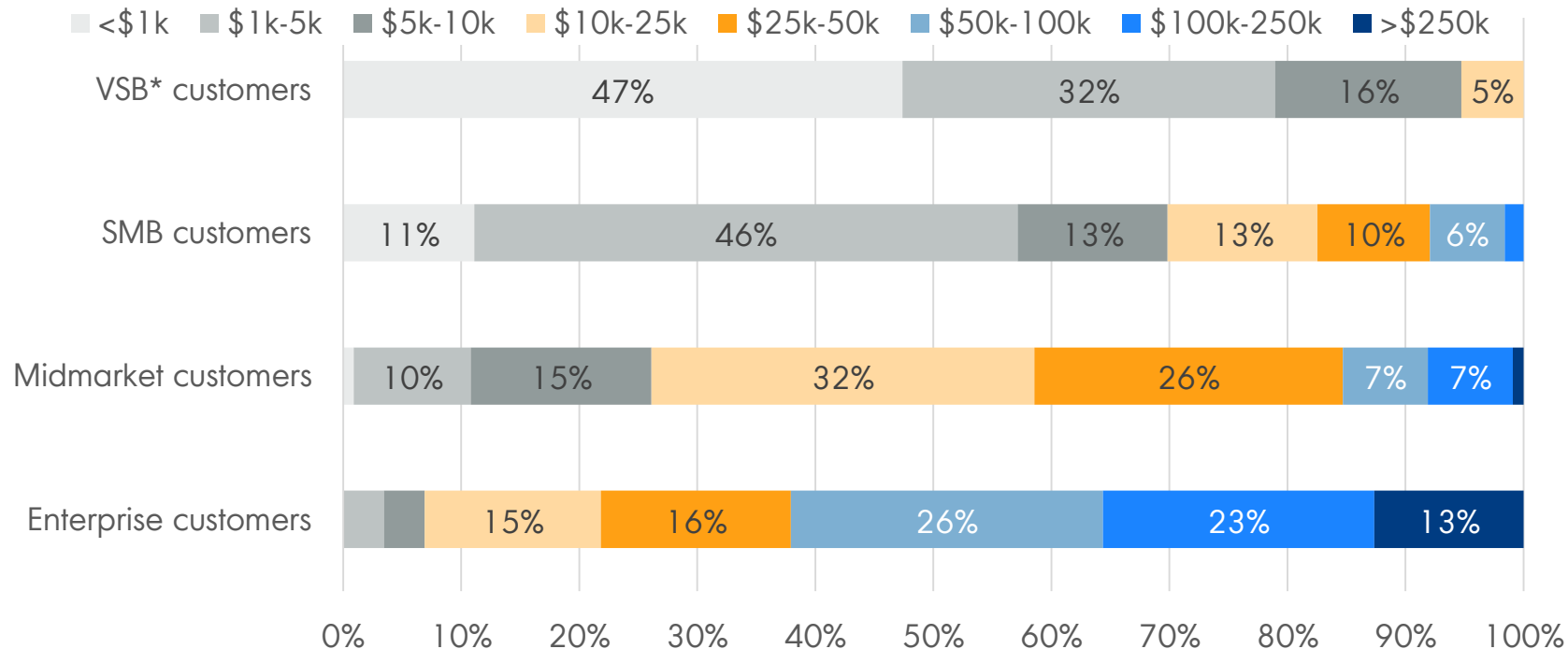**StatusPage.io** **Pricing Evolution By Plan, 2013-2016**
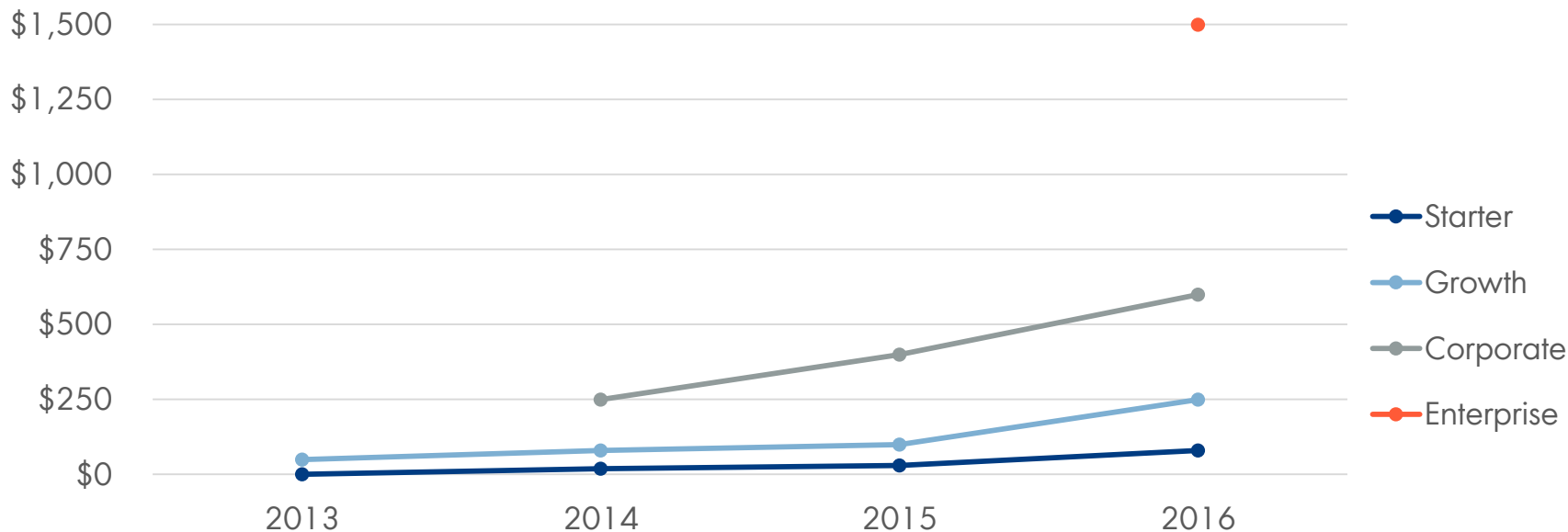


**Impact:** Grew ARPU by 2.4x from 2013-2015. Minimal impact to conversion or churn. Hit $2.5M ARR in 2 years.

Source: Steve Klein, Co-Founder StatusPage.io

# HOW DOES YOUR ACV COMPARE TO PEERS?

**Target Customer Size**

Legend: <$1k | $1k-5k | $5k-10k | $10k-25k | $25k-50k | $50k-100k | $100k-250k | >$250k

**VSB\* customers**
- 47%
- 32%
- 16%
- 5%

**SMB customers**
- 11%
- 46%
- 13%
- 13%
- 10%
- 6%

**Midmarket customers**
- 10%
- 15%
- 32%
- 26%
- 7%
- 7%

**Enterprise customers**
- 15%
- 16%
- 26%
- 23%
- 13%

X-axis: 0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
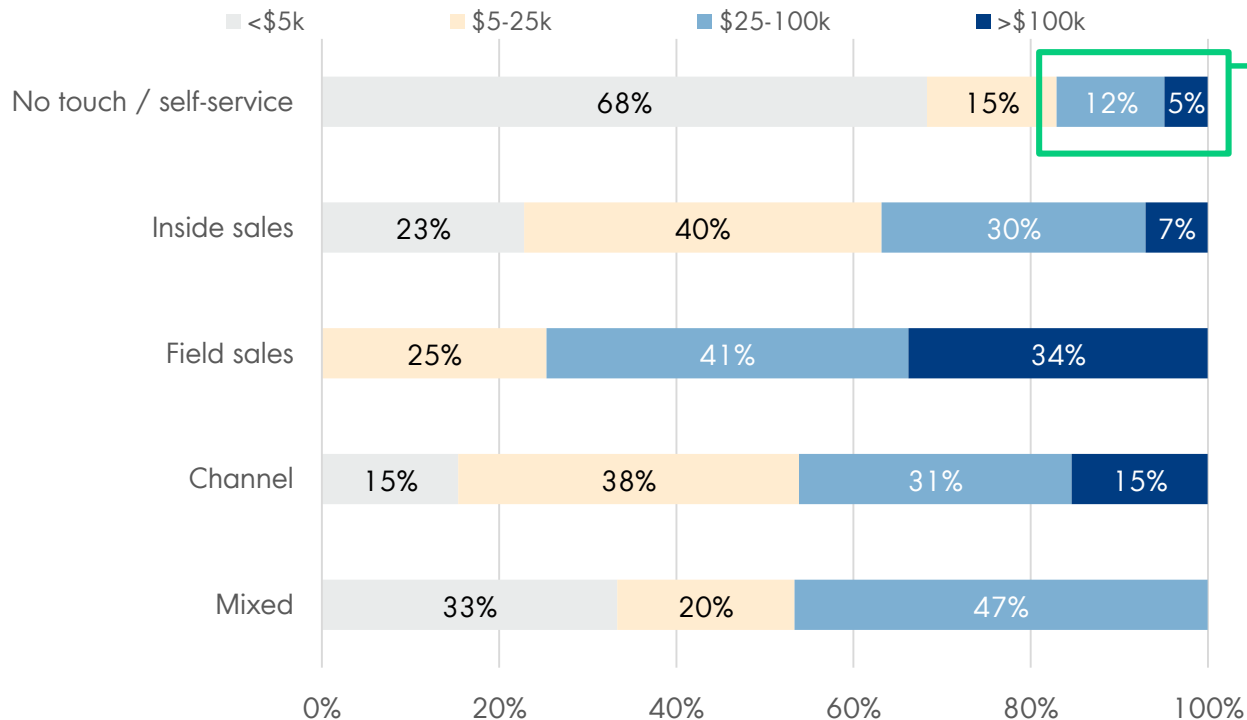
**ACV Distribution**

# DOES YOUR ACV ALLOW YOU TO BECOME A LARGE & ENDURING BUSINESS?

| Target customer size | Addressable companies (US) | Potential share | | ACV required to hit $100M |
|---|---|---|---|---|
| **Very small businesses** | 4M companies | 10% share | ▶ | $250/year |
| **SMB** | 1M companies | 10% share | ▶ | $1,000/year |
| **Midmarket** | 100k companies | 10% share | ▶ | $10,000/year |
| **Enterprise** | 40k companies | 10% share | ▶ | $25,000/year |

If you're targeting the Midmarket or Enterprise, you'll find it nearly impossible to reach $100M+ in ARR with a low ACV.

Source: US Bureau of Labor Statistics Data

# SALES CHANNELS INFLUENCE PRICING POWER

**Dominant Sales Channel**

Legend: ■ <$5k   ■ $5-25k   ■ $25-100k   ■ >$100k

| Dominant Sales Channel | <$5k | $5-25k | $25-100k | >$100k |
|---|---|---|---|---|
| No touch / self-service | 68% | 15% | 12% | 5% |
| Inside sales | 23% | 40% | 30% | 7% |
| Field sales | | 25% | 41% | 34% |
| Channel | 15% | 38% | 31% | 15% |
| Mixed | 33% | 20% | 47% | |

X-axis: 0%   20%   40%   60%   80%   100%

**ACV Distribution**

These companies employ a bottoms-up sales model to efficiently sell larger deals.

*Dominant sales channel accounts for >50% of ARR
Source: 2017 OpenView SaaS Metrics Survey, N=300

# #2 NOBODY IS PAYING ATTENTION TO PRICING

# WHERE'S PRICING?

## HubSpot At 100 Employees

**Exec Team: 10 People**

| Product | Engineering | IT / Ops | Finance | Marketing | Sales | Services |
|---------|-------------|----------|---------|-----------|-------|----------|
| 1 Exec | 1 Exec | 1 Exec | 1 Exec | 1 Exec | 1 Exec | 1 Exec |
| 6 Staff | 12 Staff | 6 Staff | 2 Staff | 5 Staff | 35 Employees | 17 Staff |

7 Other Assorted Folks (Recruiters, interns, etc.)
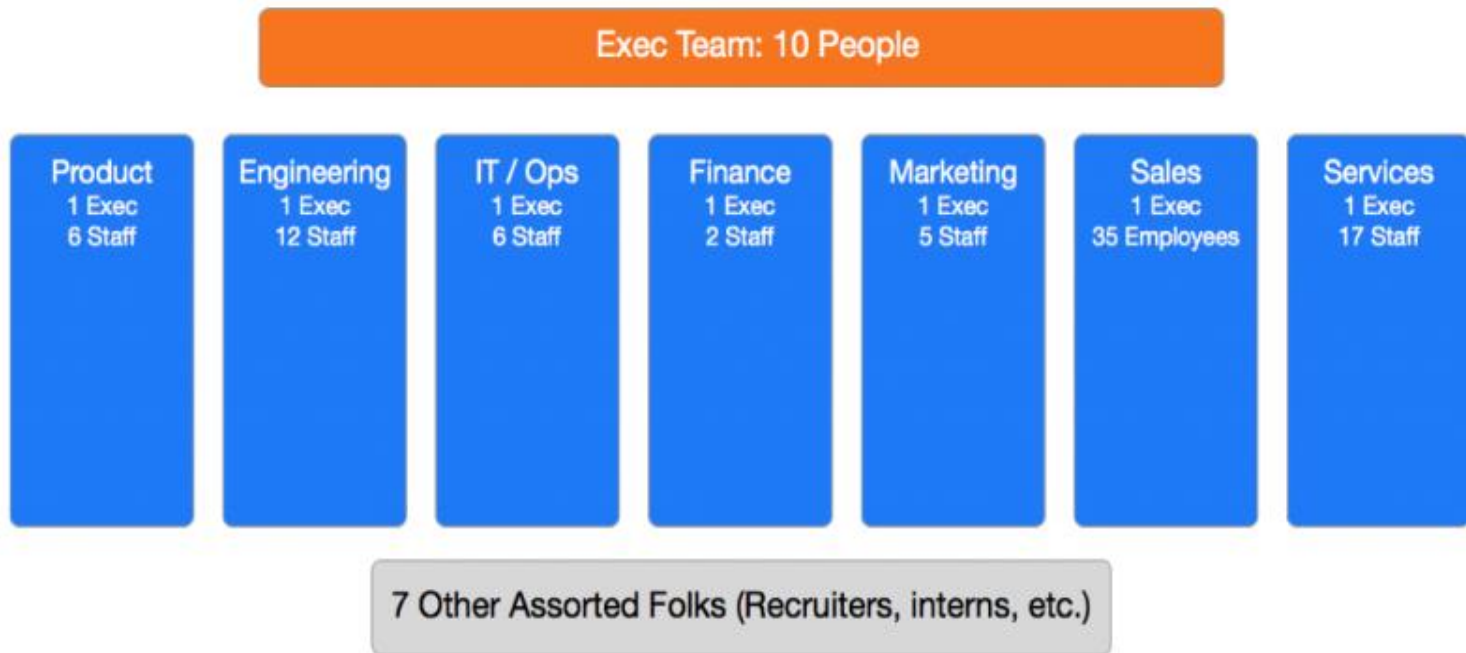
# IN MOST CASES, IT'S AN AFTERTHOUGHT

**People Working on Pricing in the Company**



Legend: ■ Nobody  ■ Piece of someone's responsibilities  ■ Dedicated resource
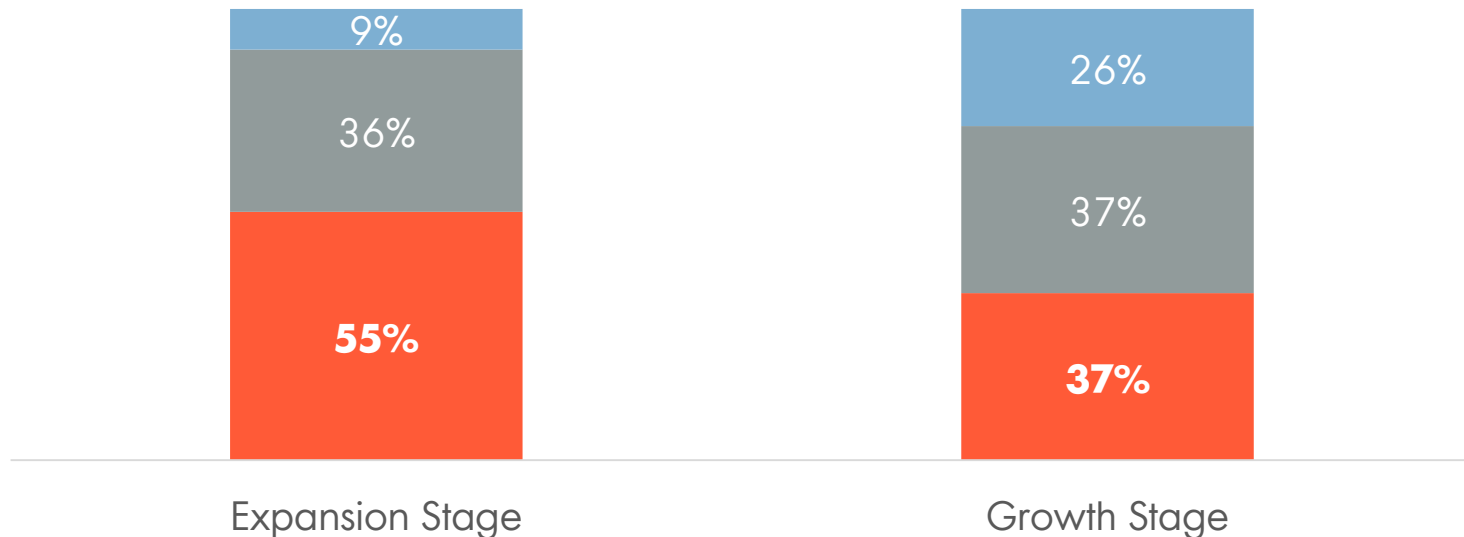
Expansion Stage: 9% Dedicated resource, 36% Piece of someone's responsibilities, 55% Nobody

Growth Stage: 26% Dedicated resource, 37% Piece of someone's responsibilities, 37% Nobody

Source: OpenView's 2017 SaaS Pricing Survey, N=1,010

# NO RESOURCES MEANS NO OPTIMIZATION

**Customer Development for Pricing**
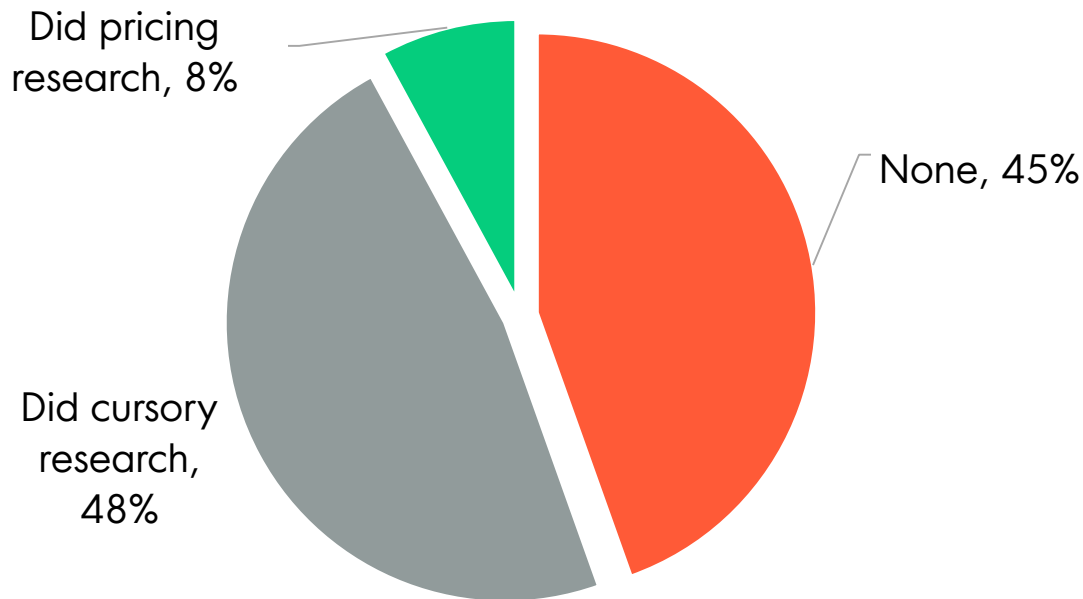


Did pricing research, 8%

None, 45%

Did cursory research, 48%

Source: OpenView's 2017 SaaS Pricing Survey, N=1,010

# PUTTING SOMEONE IN CHARGE IS MORE IMPORTANT THAN WHERE THEY SIT

| MARKETING | PRODUCT | FINANCE | SALES | OPS |
|---|---|---|---|---|
| **PROS** | | | | |
| • Great for positioning and messaging<br>• Already own TOFU & website | • Best grasp of product and roadmap<br>• Already doing customer dvpt. | • Analytical and data-driven<br>• Best handle on costs and profit | • Closest to the customer<br>• Constantly hearing about needs and pain points | • Best grasp of the data<br>• Great a processes and technology |
| **CONS** | | | | |
| • Less influence over product roadmap<br>• Lean toward lead gen strategies | • Not as strong at communication<br>• Overly focuses on features and functions vs. value | • Not as close to the customer<br>• Take a cost plus vs. value-based approach | • May be too close – want too many options<br>• Oriented towards big logos | • Less customer focused<br>• Less aligned with their day-to-day job responsibilities |

# #3 YOUR PRICING ISN'T VALUE-BASED

# IT ALL STARTS WITH YOUR VALUE METRIC

**Extracting the value delivered**

**Overcoming customer buying constraints**

**Addressing distinct customer segments and use cases**

**Bypassing psychological or budget thresholds**

**Aligning revenue with growth**

**Controlling the level of transparency**

**Synchronizing payment with consumption**

**Differentiating from competitive alternatives**

# EVEN TIRE COMPANIES HAVE ROOM TO INNOVATE WITH THEIR PRICING

## Original Value Metric

- Charge per tire
- No way to monetize more durable tires

## New Value Metric

- Charge per km driven with the tire
- Innovation pays off "automatically"

# ARE SEATS WHAT DRIVE VALUE FOR YOUR CUSTOMERS?

## Main Pricing Metric By Software Category



Legend: ■ User or seat-based  ■ Usage-based  ■ Total employees  ■ Other

| Category | User or seat-based | Usage-based | Total employees | Other |
|---|---|---|---|---|
| Horizontal app | 54% | 24% | 3% | 18% |
| Vertical app | 30% | 41% | 11% | 19% |
| Infrastructure | 32% | 39% | 6% | 23% |
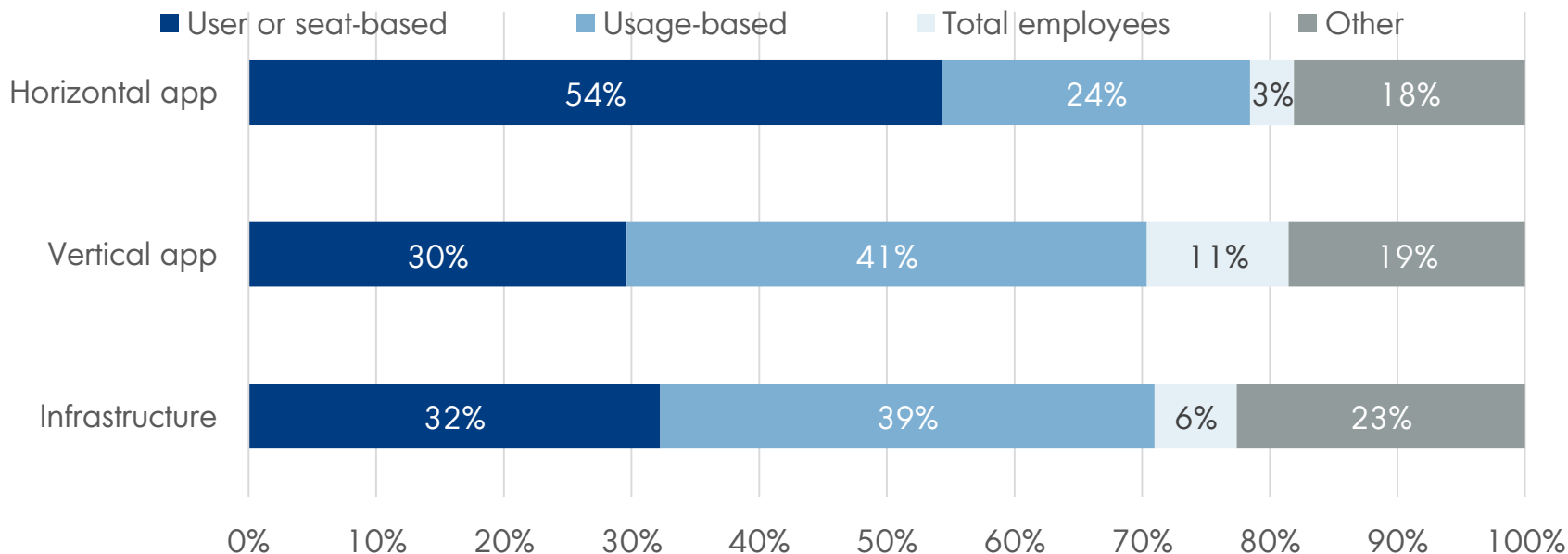
*Other includes e.g. feature-based pricing, flat fees
Source: 2017 OpenView SaaS Metrics Survey, N=300

# HERE'S WHEN CHARGING PER USER MAKES SENSE

| 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 | ✓ |

# #4 YOU DON'T HAVE A WAY TO LAND NEW CUSTOMERS

# THE TRADITIONAL VIEW: TOUCHLESS SALES LOSES EFFECTIVENESS AS DEAL SIZE INCREASES

## Sales Channel Mix by Median Contract Size (ACV)
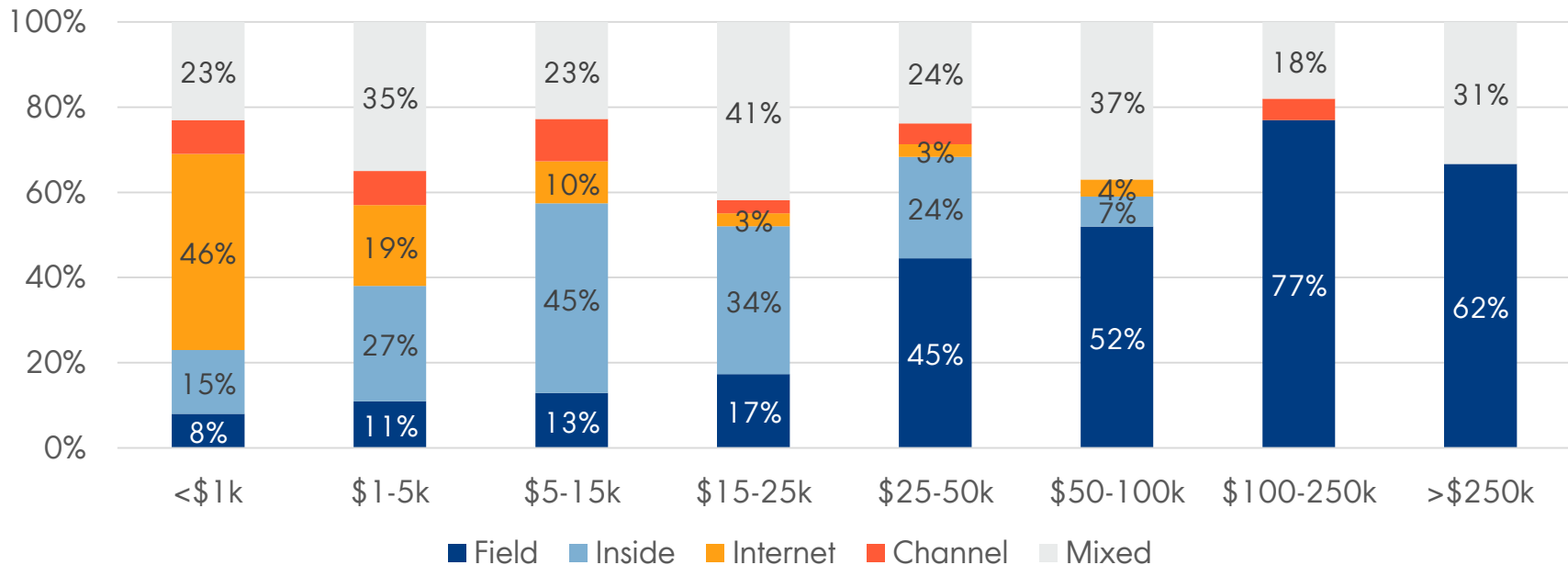


Source: Pacific Crest SaaS Benchmarking Survey

# COMPANIES ARE STARTING TO BLEND TOUCHLESS AND INSIDE SALES MODELS

"**What if we could sell to folks who are already getting value?** The breakthrough moment for us on the HubSpot Sales products was when we started thinking of our (amazing) sales team as a "Revenue API" for the product.

**Enter the Product Qualified Lead, or PQL.** If we flip the traditional model 180 degrees and start instead with product adoption, we find ourselves selling the product to folks who understand the offering and are potentially already happy with it."

Christopher O'Donnell, HubSpot VP Product

# BUILDING A SUCCESSFUL SELF-SERVICE STRATEGY IN ENTERPRISE SAAS

| Characteristics | SaaS All Star |
|---|---|
| **Efficiently lands new customers in your target segments** who aren't ready to commit to an enterprise subscription. | brightcove |
| Clear and meaningful fences **limit cannibalization and price pressure** between products. | Expensify |
| **Time to value is low**, and the self-service product can be used successful with minimal training. | DATADOG |
| Self-service product is sticky and once it's adopted, **it's hard to be ripped and replaced.** | slack |
| There's a **natural upgrade path**, and the company has clear processes to identify, convince and convert self-service customers into enterprise. | HubSpot |

# #5 YOU DON'T HAVE A WAY TO EXPAND CUSTOMERS
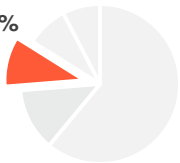
# NET NEGATIVE CHURN FACILITATES RAPID GROWTH

**Retention Rates**
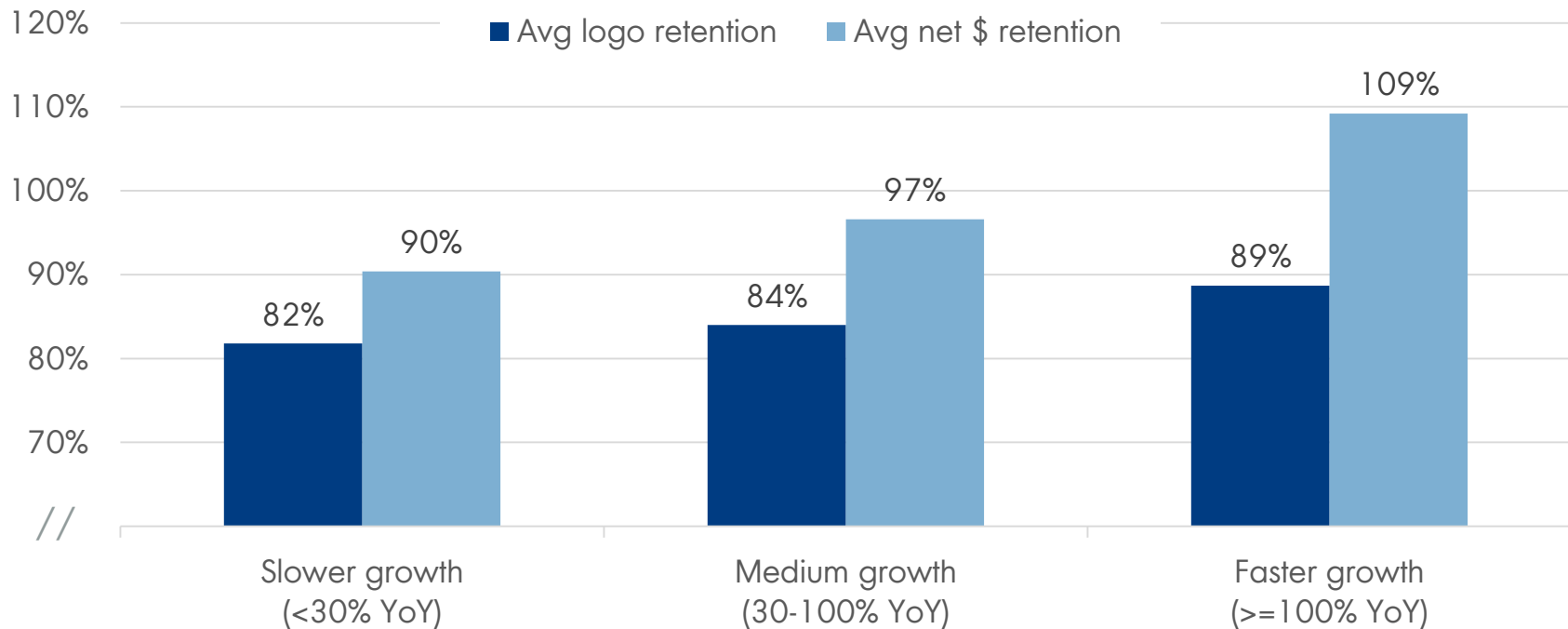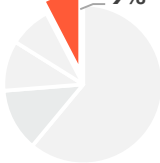


Source: 2017 OpenView SaaS Metrics Survey, N=300

# DESIGN YOUR PACKAGES TO CREATE AN EXPANSION PATH FOR CUSTOMERS

*Low*  **Degree of complexity**  *High*

| All in bundling | Category bundles | Segment or use case | Good / Better / Best | Modular |
|---|---|---|---|---|
| **Explanation** | | | | |
| One offer with everything included | Packages that include all relevant products in a product or content category | Packages tailored to the needs of different segments and/or types of users | Packages with increasingly more products, functionality and/or features | Build-your-own package approach with multiple product discounts |
| **Popularity** (from OpenView analysis of 104 SaaS companies*) | | | | |
| 14% | 12% | 10% | 69% | 9% |
| **Example** | | | | |
| Microsoft Office | Salesforce | LinkedIn | Slack | Twilio |

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

# EXPANDING CUSTOMERS OVER TIME: SALESFORCE EXAMPLE



**Salesforce Pricing Per User Per Month, 1999-2016**
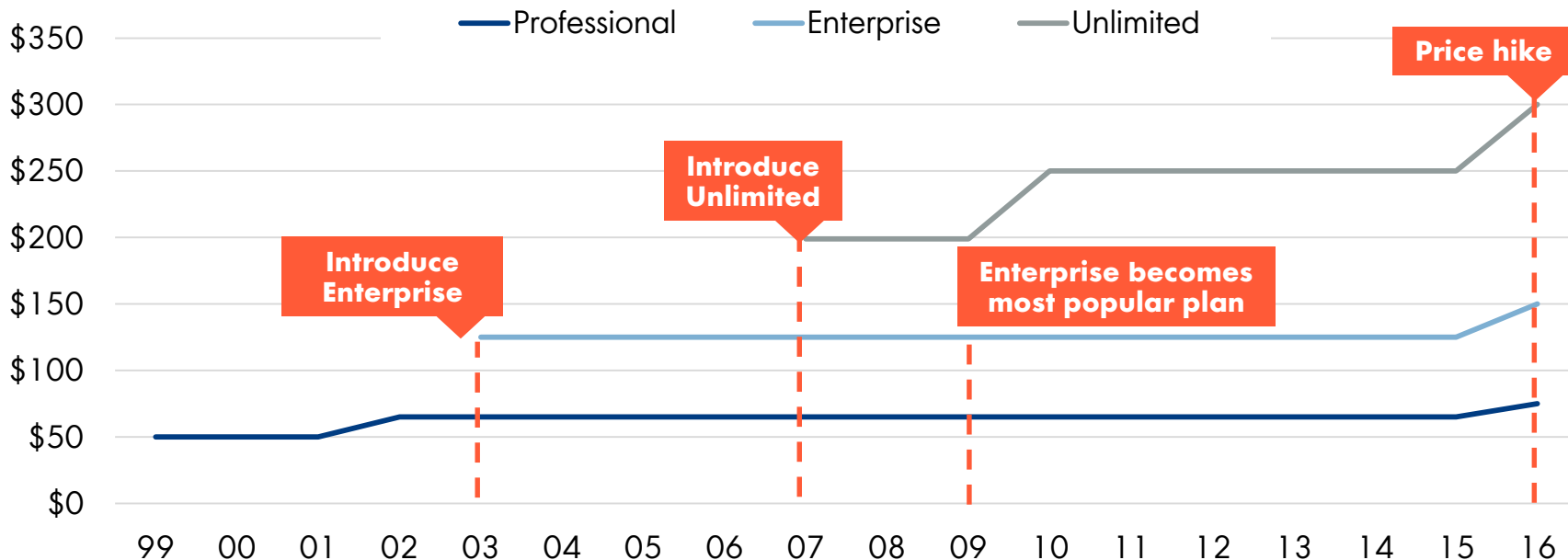
Legend: Professional, Enterprise, Unlimited

Annotations: Introduce Enterprise, Introduce Unlimited, Enterprise becomes most popular plan, Price hike

# PRO TIP: IDENTIFY YOUR LEADER, FILLER AND 'BUNDLE KILLER' FEATURES

## Big Mac

... a "leader" product

**A high value product that most customers "must have"**

## Coke & Fries

... "filler" product(s)

**Medium value products that most customers find "nice to have"**

## Coffee

... NO "bundle killer(s)"

**Products which, if included, many customers find "unacceptable" in a bundle**

# HERE'S HOW:
# PACKAGING VALUE ANALYSIS

## Value of Different Features* Among <u>Small vs. Large Customers</u>



Large gap in perceived value between customer segments

— Smaller customers
— Larger customers
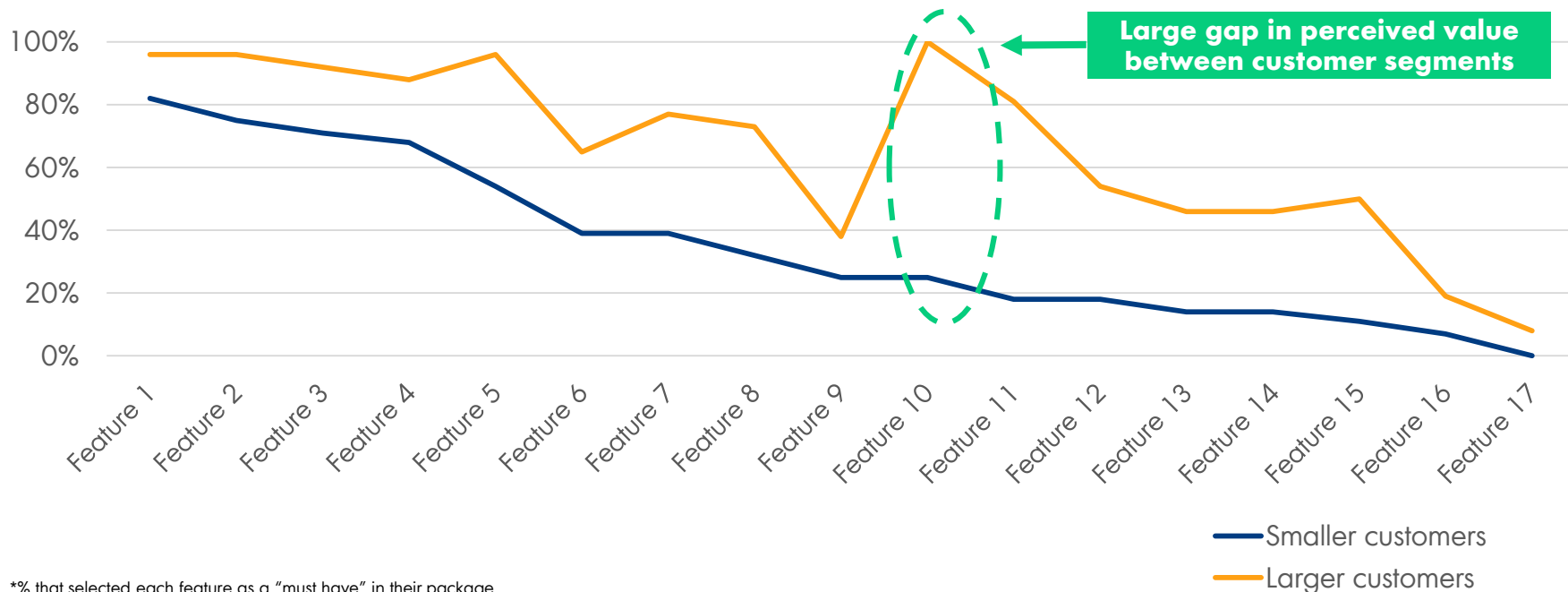
*% that selected each feature as a "must have" in their package

# #6 YOU AREN'T COMMUNICATING CLEARLY

# FOR MANY SAAS COMPANIES, THE PRICING PAGE IS THEIR TOP SALES REP

## Publishing SaaS Pricing

- ■ Publish pricing
- ☐ Do not publish pricing
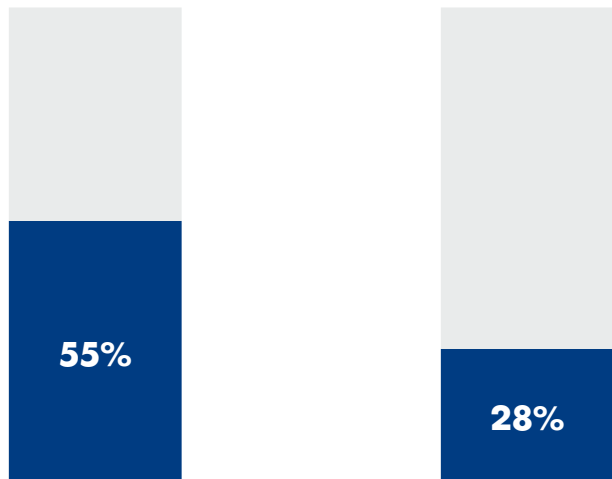
**55%** — SaaS unicorn company

**28%** — Public SaaS company

## When Pricing Was First Published
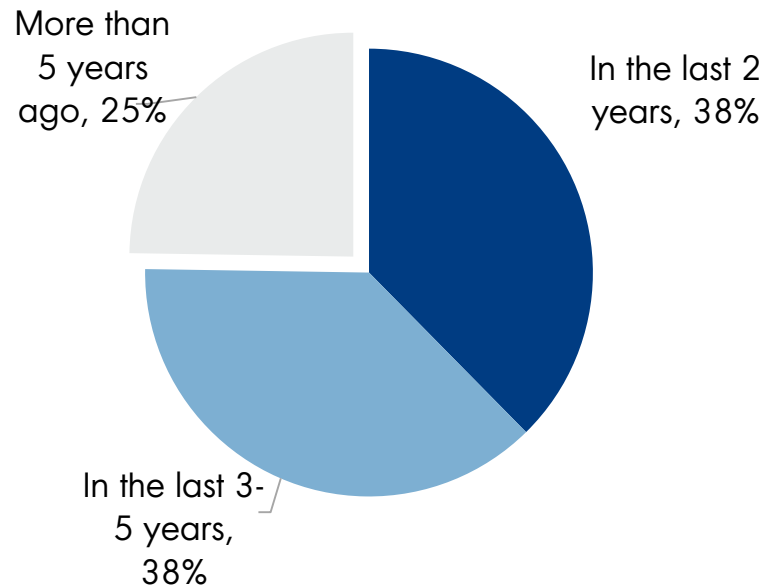
More than 5 years ago, 25%

In the last 2 years, 38%

In the last 3-5 years, 38%

DOES YOUR PRICING
PAGE WORK FOR YOU
OR AGAINST YOU?

# TIPS TO A BEST IN CLASS PRICING PAGE

| Tips | SaaS All Star |
|------|---------------|
| **Reinforce your value proposition, over and over again.** Make it exceedingly clear who should buy your plans, why they should buy and how it ladders back to your brand. | Typeform |
| **Speak directly to your different target buyers and personas.** How does your product help them meet their specific objectives? | Linked in |
| **Emphasize benefits rather than just features.** | Trello |
| **Put lingering fears to rest.** Your pricing page needs to convince the buyer to pull the trigger on their purchase, and do so right this second instead of continuing to research other options. | slack |
| **Nudge buyers with insights from behavioral psychology.** These include leveraging well-known insights like anchoring, guiding, charm prices and the 'deal effect.' | EVERNOTE |

SLACK FOR TEAMS  SLACK ENTERPRISE GRID

**Slack For Teams**

Slack for Teams is a single workspace for your small- to medium-sized company or team.

| Free | Standard | Plus |
|------|----------|------|
| $0 | $6.67 | $12.50 |
| | Per active user, per month billed annually | Per active user, per month billed annually |
| | $8 billed monthly | $15 billed monthly |
| CREATE A WORKSPACE | BUY STANDARD | |
| For small teams wanting to try out Slack for an unlimited period of time. | For teams and businesses ready to make Slack the hub for their projects and communications. | For Compliance Exports, and guaranteed uptime on a single Slack team. |
| Learn more | Learn more | Learn more |

**Fair Billing Policy**

At Slack, you only get billed for the people who use it each month. And if someone you've already paid for becomes inactive, we'll add a prorated credit to your account for the unused time. Because billing should be fair — and we like you.

Leading the way in enterprise security

Commonly asked questions

What are my payment options - credit card

Our team has several accounts which are not being used. Do we still have to pay for them?

My team has credits. How do we use them?

We need to add new users to our team. How will that be billed?

My team wants to cancel its subscription. How do we do that? Can we get a refund?

**1** Clearly states their value prop

**2** Different messaging for teams vs. Enterprise

**3** Crystal clear about benefits, not just features

**4** Puts lingering fears to rest

**5** Leverages psychology by highlighting the price when paid annually

# #7 YOU'RE NOT DOING ENOUGH EXPERIMENTATION

# PACKAGING AND PRICING SHOULD CHANGE AS COMPANIES MATURE



**Market entry**
- Single product
- Simple pricing

**Expansion**
- Product and feature enhancements
- Product tiers and add-ons

**Optimization**
- Product line extensions
- Portfolio and packaging/bundling strategy
- Segmentation & differentiation
- Execution excellence

**Value extraction and loyalty**
- Increased focus on dollar retention
- Driving engagement
- Proactive churn mitigation
- International pricing optimization

Revenue

Time

# DON'T BE AFRAID TO EXPERIMENT

"**Experimentation is a huge part of our growth infrastructure.** In 2012 we were running 2-3 experiments per month. These days we're doing 80 per month. We're constantly running experiments. This is driving more than $100M in incremental revenue every year."

Todd Jackson
**VP of Product, Dropbox**

# IT'S NEVER 100% DONE

"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 in the same way they think about product development – **their pricing is in a constant state of evolution.**"

Monika Saha
VP & GM at Zuora

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THANK YOU!