“Nothing is more critical to a software-as-a-service business than its pricing strategy”

- Steven Sinofsky, Partner, Andreeson Horowitz
Pricing on anything other than value to customer can leave significant amount of money on the table.

**How would you price Picasso’s 1955 “Les Femmes d’Alger (Version O)” at 2015 sale?**

### Cost-Based Pricing

<table>
<thead>
<tr>
<th>Item</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>5' X 5' Premier Canvas</td>
<td>$200</td>
</tr>
<tr>
<td>Deluxe Oil Paints</td>
<td>$150</td>
</tr>
<tr>
<td>Fine Brushes</td>
<td>$100</td>
</tr>
<tr>
<td>Other Supplies</td>
<td>$100</td>
</tr>
<tr>
<td>30 Hrs Labor ($100 / hr)</td>
<td>$3,000</td>
</tr>
<tr>
<td><strong>TOTAL COGS</strong></td>
<td><strong>$3,550</strong></td>
</tr>
<tr>
<td>+ 15% Markup</td>
<td></td>
</tr>
<tr>
<td><strong>$3,933</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total COGS Plus Markup</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Competitor-Based Pricing

Price = Market Price - Discount

“(Version O)” is part of a series for which past auction data exists.

<table>
<thead>
<tr>
<th>Item</th>
<th>Auction Year</th>
<th>Sale Price</th>
<th>2015 Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>H</td>
<td>1997</td>
<td>$7.2 M</td>
<td>$10.6 M</td>
</tr>
<tr>
<td>J</td>
<td>2006</td>
<td>$18.6 M</td>
<td>$21.6 M</td>
</tr>
<tr>
<td>K</td>
<td>1997</td>
<td>$6.6 M</td>
<td>$9.8 M</td>
</tr>
<tr>
<td>L</td>
<td>2011</td>
<td>$11.4 M</td>
<td>$12.0 M</td>
</tr>
<tr>
<td>M</td>
<td>1997</td>
<td>$10.0 M</td>
<td>$14.8 M</td>
</tr>
<tr>
<td>O</td>
<td>1997</td>
<td>$31.9 M</td>
<td>$47.1 M</td>
</tr>
</tbody>
</table>

**$19,320,000**

Average of adj. benchmark prices

### Value-Based Pricing

Price = What It’s Worth to Customer

**Hypothesized Sources of Value for Buyer at Auction** (former Prime Minister Hamad bin Jassim bin Jabir Al Thani):

- Investment thesis that value will rise over time
- Aesthetics and enjoyment
- Addition to personal collection
- Perception of owner as an educated person
- Cultural prestige for Qatar

**$179,400,000**

Amount of actual sale plus fees
## Pricing should be based on value to customer

### Cost-Based Pricing

- **Use Rarely**
  - Revenues will cover costs
  - Requires little research to set
  - One price for all customer segments
  - Undercharges customers willing to pay more
  - May not stay profitable if costs change
  - Virtually never the correct strategy because it undercharges customers willing to pay more, and because your margins may be unsustainable if your cost structure changes

### Competitor-Based Pricing

- **Use Sparingly**
  - Prices are in-line with customers’ past expectations and vocabulary
  - Direct comparability exists between players (advantageous in an RFP process)
  - Competitors may not exist for an innovative product or service
  - Can create a “race to the bottom” between competitors, eroding margins

### Value-Based Pricing

- **Use Predominantly**
  - Maximizes revenue by charging each customer maximum will pay
  - Requires extensive research and experimentation to refine
  - Charging too high a price may create margins that tempt entry of more competitors (“price umbrella”)
  - Nearly always the best strategy because it secures the greatest possible revenue for a product

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Revenues will cover costs
Requires little research to set
Maximizes revenue by charging each customer maximum will pay
Nearly always the best strategy because it secures the greatest possible revenue for a product
How to price your SaaS product

1. **Define your upper bound:** *The maximum value your product has for customers*
   - Competitive Advantage
   - Customer

2. **Define your lower bound:** *The minimum you must charge to cover your products’ costs*
   - Costs *(both fixed costs and variable costs)*

3. **Identify any reasons to charge less than your maximum value**
   - Competition
   - Discounts

4. **Structure your pricing model as a compromise between upper bound and lower bound**
   - Value Metric
   - SaaS Pricing Models
At most fundamental level, your pricing strategy hinges on how unique your product is.

<table>
<thead>
<tr>
<th>Unique</th>
<th>Similar to Other Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Also known as…</td>
<td>Your product may be unique in terms of…</td>
</tr>
<tr>
<td>• Differentiated</td>
<td>• Product functionality</td>
</tr>
<tr>
<td>• Compete on product</td>
<td>• Customer service</td>
</tr>
<tr>
<td>• “Price Makers”</td>
<td>• Patent exclusivity</td>
</tr>
<tr>
<td></td>
<td>• Brand perception</td>
</tr>
<tr>
<td></td>
<td>• Geographic focus / language</td>
</tr>
<tr>
<td></td>
<td>• Go-to-market strategy</td>
</tr>
<tr>
<td></td>
<td>Price is the only meaningful differentiation</td>
</tr>
</tbody>
</table>

Your customers decide how to buy based on…

- Whichever product best meets their needs
- Whichever product has the lowest price

You’ll win by investing in…

- Advertising
- Customer insights
- Research and development
- Increasing volume to drive scale
- Taking out as much cost as possible from the value chain (vertical integration, advertising, labor, etc.)

The more unique your product, the greater your ability to charge a premium.
At most fundamental level, your pricing strategy hinges on how unique your product is

<table>
<thead>
<tr>
<th>Unique</th>
<th>Similar to Other Products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compete on Product</strong></td>
<td><strong>Compete on Price</strong></td>
</tr>
</tbody>
</table>

**Talent Analytics Software**
Talent software is very differentiated: quality and usefulness of analyses, ease of use.

Therefore, customers are willing to pay a premium for the solution that best meets their needs and providers compete on quality.

**Fiji Water**
Price: $5 / bottle
Customers pay more for Fiji Water because it is marketed as elite and because it is sold at high-end locations. Customers pay for how it makes them feel about water.

**Grocery Store Generic**
Price: $0.25 / bottle
At the grocery store, people buy whatever water is cheapest. The grocery store brand thus tries to be cheapest by selling in bulk and owning supply chain (vertical integration).

**Payroll Software**
Payroll is not differentiated: either employees are paid correctly and on-time, or they are not.

Therefore, price is the most important driver for purchasing. ADP is the largest, oldest player, and its scale keeps costs low, so it is difficult for new entrants to compete.

**HR Software**
Talent software is very differentiated: quality and usefulness of analyses, ease of use.

Therefore, customers are willing to pay a premium for the solution that best meets their needs and providers compete on quality.
How will your product contribute to customers’ bottom line?

Direct Revenue Contribution
- New leads
- Customer retention

Indirect Revenue Contribution
- Brand perception

Direct Cost Cutting
- Price difference from competitor
- Time / labor expense

Indirect Cost Cutting
- Reduces errors / risk

This is important to understand because clients will estimate the ROI of purchasing your product by comparing your price to its bottom-line contribution.

How will your product increase revenue?
How will your product decrease costs?
What drives your customers’ switching costs?

Switching costs are the incremental expenses, inconveniences and risks incurred by your customer when they switch software providers.

They are a double-edged sword for SaaS businesses: at first, an impediment for adoption, and eventually, a tool for retention.

### Adoption: Minimizing Switching Costs

- Freemium models acknowledge the upfront cost of switching and lower the risk of trying new software.
- Support the migration of data from existing platforms, or the entry of new data into your platform.
- Minimize re-training costs through product ease-of-use, help desks and training / reference materials.

### Retention: Increasing Switching Costs

- Offer an excellent product and experience that gives customers no reason to look elsewhere.
- Build a personal, trusting relationship with decision makers.
- Incorporate network benefits whereby customers benefit from having other customers using your product.
- Offer data-driven insights that platforms with fewer customers can’t match (benchmarks, industry trends, etc.).
- Integrate with other business applications.
- Build a large user base within your customers’ companies.
- Patents and long-term contracts are helpful structural strategies, but are not ultimately sustainable.
# What are your key customer segments?

**Customer segments** are groups of customers that have similar purchasing behavior.

The results of an effective customer segmentation are:
- **Measurable**: Quantifiable and based on rigorous measurement
- **Addressable**: You are able to affect and influence group behavior
- **Stable**: Segments are unlikely to change in near future
- **Consistent**: Groups stay similarly clumped through customer lifecycle

### How does segmentation help you price?

- Charge higher prices to customer segments that are less price-sensitive and / or that derive greater value from your product
- Increase your competitive advantage by providing a feature or service especially valuable to a certain segment
- Prioritize high-profit customer segments and deprioritize low-profit customer segments
- Improve your advertising and marketing by targeting the most effective communication channels and messages
- Boost conversion at different funnel points by refining product and its solutions

### How do you create a customer segmentation?

One or a combination of the following may be used to derive a segmentation:
- **Existing customer data**: Do you see clumps or patterns in usage?
- **Customer research** (surveys, interviews, focus groups, etc.): What do your customers tell you about themselves?
- **External market research**: What patterns exist in the broader market?
<table>
<thead>
<tr>
<th>Customer segments may be described in terms of their…</th>
<th>Needs</th>
<th>Behaviors</th>
<th>Demographics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Useful For</strong></td>
<td>Creating value propositions</td>
<td>Targeting different segments</td>
<td>Describing customer segments</td>
</tr>
<tr>
<td><strong>Answers the Question</strong></td>
<td>What do customers need?</td>
<td>How do customers behave?</td>
<td>Who are our customers?</td>
</tr>
<tr>
<td><strong>Data that Measures their Preferences</strong></td>
<td>• Relative prioritization of price, quality, convenience, customer service, etc.</td>
<td>• Sales process</td>
<td>• Revenues</td>
</tr>
<tr>
<td></td>
<td>• How predictable their demand is</td>
<td>• Frequency and type of product use</td>
<td>• Number of employees</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Loyalty</td>
<td>• Industry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Tech literacy</td>
<td>• Geography</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Price sensitivity</td>
<td>• Business model</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Marketing channel usage</td>
<td></td>
</tr>
<tr>
<td><strong>How to Find Data</strong></td>
<td>Customer interviews, surveys, focus groups, etc.</td>
<td>• Observations</td>
<td>• Customer onboarding questions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Transaction data</td>
<td>• Secondary market data</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Web, app or other tracked interaction patterns</td>
<td></td>
</tr>
</tbody>
</table>
Example of pricing structure broken out by customer segment

| Customer | Three types of customers use Bidsketch: agencies, studios and freelancers. | Bidsketch

<table>
<thead>
<tr>
<th>Agencies (Agencies)</th>
<th>Studios (Studios)</th>
<th>Freelancers (Freelancers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$119/month (20% off $149 billed yearly)</td>
<td>$47/month (40% off $79 billed yearly)</td>
<td>$23/month (20% off $29 billed yearly)</td>
</tr>
</tbody>
</table>

- **Users**
  - Up to 8
  - Up to 3
  - 1

- **Analytics**
  - Available
  - Available
  - Available

- **Electronic Signatures**
  - Available
  - Available
  - Available

- **Your Own Domain**
  - Available
  - Available
  - Available

- **Realtime Collaboration**
  - Available
  - Available
  - Available

- **Team Management**
  - Available
  - Available
  - Available

All plans include templates, branding, and PDF export.

- **AGENCY**
  - **START TRIAL** (14 Day Free Trial)
- **STUDIO**
  - **START TRIAL** (14 Day Free Trial)
- **FREELANCER**
  - **START TRIAL** (14 Day Free Trial)

Though each feature costs roughly the same to provide, Bidsketch charges its least price-sensitive customers (agencies) the most for this access and keeps a low price for its most price sensitive customers (freelancers)

This way, Bidsketch gets the most money possible from each group: no one overpays, and no one underpays
How price sensitive are your customer segments?

**Less Price Sensitive**

- High-margin business like financial services
- When your product is necessary for operations (e.g., a factory will pay hundreds of dollars to replace a small gear that has thrown its line out of commission)
- Reacting out of fear: Your product addresses a strategic anxiety and leadership wants to feel they have taken it seriously with an expensive solution (e.g., security software)
- When price is taken as a proxy for quality because your product is not understood well

**More Price Sensitive**

- Low-margin business like grocery or restaurant
- Supplier oversight exists (government or subcontractor)
- Uncertainty about how much they may use and thus what much eventual price may be
Does your customer understand the value you provide?

**SaaS products often face challenges in the gap between the value they can actually provide and the value their customers perceive**

- Businesses may be reluctant to change established processes and risk customer-facing mistakes: “Our current solution isn’t great, but I know for sure that it works”
- Cost associated with devoting time to transitioning and learning new technology away from revenue-generating activities: “Every minute I spend fiddling with installation is a minute I’m not selling”
- Human beings by nature tend to under-value unfamiliar experiences: “Sure, you’ll cut out three complex and time-intensive intermediary steps, but I’ve gotten so used to them, they don’t annoy me anymore”
- Decision makers may lack tech savvy: “Cloud-based? Like it’s in the atmosphere?”

Where customers are skeptical of or unfamiliar with your product, the time it takes to better understand its value is effectively a perceived a “price” to its use

Therefore, especially innovative, disruptive or complex products will often benefit from sharply discounted or free trial periods to counterbalance perceived “expense” of using product
Hypothetical: Determining the upper bound for a loan software company

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Pricing Implication</th>
<th>Approximate Upper Bound</th>
</tr>
</thead>
</table>
| How does this product reduce customer costs?                    | • Increases loan officer productivity such that most customers can eliminate one position  
• Decreases risk of data entry error                              | $20,000 value for typical customer per year                  | $20,000 per year         |
| How does this product increase customer revenue?                | Typical customers see a 10% lift in renewal rate                        | $5,000 value for typical customer per year                  | $25,000                  |
| How unique is this product?                                     | This product is very unique because it offers features specific to rural customers | High price can be defended                                 | $25,000                  |
| What type of switching costs do these customers face?           | Customers face very high switching costs: data migration, re-training officers, high risk if implementation is flawed | Pricing should be lower, especially upfront                 | $10,000                  |
| Do customers understand this product’s value?                   | Customers are very skeptical of the value. Existing pen-and-paper systems have worked well for a long time, and many decision-makers are not tech literate | Pricing should be lower, especially upfront                 | $5,000                   |
| What are major customer segments?                               | Biggest segments are microfinance organizations that are non-profit, and that are for-profit. | Neutral                                                     | $5,000                   |
| How price sensitive are customers?                              | • For-profit orgs are somewhat price sensitive  
• Non-profit orgs are very price sensitive                         | Discount for non-profit orgs                                | $5,000, $2,000           |

Prices cannot be higher than this upper bound  
(shown here as annual licensing fee, but could be charged in other ways)
What costs does your pricing need to cover to support profitability?

Even if your strategy does not require immediately profitability, you should understand the revenue you need to break even and become profitable.

**Fixed Costs**

Fixed costs are set costs that do not increase or decrease as you sell more products.

For example, if you rent office space, your rent is the same regardless of how many subscriptions you sell.

Other examples include:
- Executive compensation
- Product development
- Legal approval of products
- Certifications and registrations

**Variable Costs**

Variable costs rise and fall depending on how many products you sell.

For example, if you employ customer service agents, as you gain more customers, you will need to hire more agents to support those customers’ needs.

Other examples include:
- Data storage and server space
- Advertising
- Sales commission
- Customer service (training, onboarding, support)
- Third party licenses
- Risk and liability
- Insurance

Typically most relevant for SaaS businesses

If covering your costs requires a price point that your customers are not willing to pay, you should very seriously reconsider your business model.
Hypothetical: Determining the lower bound for pricing for a background check provider

This company provides background check and data reports, and charges its customers based on the number of reports they purchase.

<table>
<thead>
<tr>
<th>Fixed Costs (Costs Per Year)</th>
<th>Variable Costs (Costs Per Report)</th>
<th>Cost Per Report</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual licensing fee</strong></td>
<td>Database Fee ($0.50)</td>
<td>$10,000</td>
</tr>
<tr>
<td>Executive payroll</td>
<td>Other Fee ($0.05)</td>
<td>$200,000</td>
</tr>
<tr>
<td>Office Overhead</td>
<td>Report Assembly ($0.02)</td>
<td>$500,000</td>
</tr>
<tr>
<td>Other Overhead</td>
<td>Account Mgmt payroll ($0.01)</td>
<td>$50,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>Support payroll ($0.01)</td>
<td>$760,000</td>
</tr>
<tr>
<td></td>
<td>TOTAL $0.59</td>
<td></td>
</tr>
</tbody>
</table>

To break even, prices per score can’t be set below this lower bound.
What do you need to know about competitors’ pricing?

**Competitors’ pricing is important context for your pricing decisions:**
- Your customers will use competitors’ pricing as a benchmark
- Ability to maintain profitability at a lower price point may be an important competitive advantage
- Competitors’ structure may be effective and refined over time, and may work for your business as well
- The industry may have common terms, units of sale, contract structure. In such case, you should be able to translate your value into that language (even if you don’t adopt the same terms) so that customers can compare pricing and so you can participate in bidding / RFP processes

**However, beware relying too heavily on competitors’ pricing**
- *See Slide 4*
Significant variation in SaaS pricing limits usefulness of competitor pricing as benchmark

3. Identify reasons to charge less than your maximum value

Customer Relationship Management (CRM) Software Pricing
Per User, Per Month

- **AgileCRM**
- **ZOHO**
- **Microsoft Dynamics**
- **insightly**
- **base**
- **SUGARCRM**
- **Bitrix24®**
- **salesforce**

$0 $50 $100 $150 $200

= Price Tier
### Should you undercut your competitors’ price?

**Under certain circumstances, undercutting competitors’ prices can be advantageous, even when your product is differentiated by unique or superior features**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>You have a very different cost structure that your competitors cannot match</td>
<td>While SAP invested heavily to readapt its CD-based HR software for the cloud, cloud-first Workday did not need its pricing to cover those costs and could undercut prices</td>
</tr>
<tr>
<td>You want to take share from an established business</td>
<td>Constant Contact dominated SME email marketing without competition for a decade. MailChimp offered a pricing tier identical to CC’s lowest paid tier for free to entice switching</td>
</tr>
<tr>
<td>Your volume allows for unit economics that are cost prohibitive for new entrants</td>
<td>As the dominant player for remote servers, Amazon Web Services keeps its prices low to starve out new entrants</td>
</tr>
</tbody>
</table>

### However, be very careful!

- You may realize greater revenues from fewer customers paying higher prices
- Your competitor may also lower prices and engage in a price war
- Customers may perceive your product as lower quality, simply because the price is lower
### Discounting: When do you lower your prices?

Think of discounts as a way that you can incentivize customers to behaviors that benefit your company in the long term.

<table>
<thead>
<tr>
<th>Discount Type</th>
<th>Description</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Volume Discounts</strong></td>
<td>The more a customer purchases, the lower price they pay</td>
<td>Hubspot charges $200 for 100 contacts ($2 each), $800 for 1,000 ($0.80 each) or $2,400 for 10,000 ($0.24 each)</td>
</tr>
<tr>
<td><strong>Prepayment / Commitment</strong></td>
<td>Customers who agree to a longer commitment pay a lower price</td>
<td>Evernote charges $5 per month or $45 per year (effectively $3.75 per month)</td>
</tr>
<tr>
<td><strong>Loss Leader</strong></td>
<td>Selling a product at a loss so customer to buy other products</td>
<td>Printers are often sold to consumers at a loss, and profit then come from selling ink over the lifetime of the printer</td>
</tr>
<tr>
<td><strong>Bundling</strong></td>
<td>Most desirable products are paired with less desirable products</td>
<td>Microsoft Office bundles its most popular products (Outlook, Word, Excel) with slower-moving products (OneNote, Publisher, Access)</td>
</tr>
<tr>
<td><strong>Referrals</strong></td>
<td>Customers receive a discount when they refer a new customer</td>
<td>Dropbox provides users 500MB storage for each person they refer who subsequently opens an account</td>
</tr>
<tr>
<td><strong>Proof-of-Concept</strong></td>
<td>A customer who can provide a newer product with credibility</td>
<td>Postmates delivers Starbucks coffee at a loss in exchange for the marketing opportunity</td>
</tr>
</tbody>
</table>
Selecting a value metric: What are you actually charging for?

| Definition | The increment of your product for which you charge for increased access:  
• “Our product costs $X per Y”  
• “For each Y, we charge $X” |
| --- | --- |
| Common SaaS Value Metrics | • Users / accounts  
• Access to certain features  
• Messages / emails  
• Contacts  
• Bandwidth  
• Storage  
• Timeliness / speed  
• Customer support |
| Best Practices | ✓ Rooted in your customer segmentation and linked to your unique competitive advantage for each segment  
✓ Grow with your customer: They pay you more when they are making more money  
✓ Intuitive and in your customer’s language. For example, a “mom and pop” business looking for video hosting may not understand bandwidth or its drivers |
| Avoid or Tread Carefully | ❌ Overwhelming customer with choice. May distract from unique advantage or lead to negative emotions such as confusion or uncertainty  
❌ Being perceived as tricky or trying to take advantage of your customer’s ignorance, accidental overuse  
❌ Be cautious about using number of users as your metric. Often, the more people who use your product, the greater the switching cost for the customer, which is to your long-term benefit. Also, there are likely a maximum number of potential users within a company, providing a ceiling to your reoccurring revenues |
Four common SaaS pricing structures

1. **Freemium**
   - Free access to core services, and a premium for advanced or niche services

2. **Consumption**
   - “Pay as you go” on a usage basis

3. **Tiered**
   - Volume discounts at certain levels of usage

4. **Perpetual License**
   - Perpetual and outright ownership of a software license
   - This structure was more common for CD-ROM based software and is rarely used for modern products.

Source: “Software as a Service Pricing Strategies,” Bessemer Venture Partners, 2013
Freemium

<table>
<thead>
<tr>
<th>Definition</th>
<th>Free access to core services, and a premium for advanced or niche services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumption</td>
<td>Your customer cannot adequately understand the true value of your product (and thus assess their willingness to pay) without experiencing it</td>
</tr>
<tr>
<td>Best Case Uses</td>
<td>✔ SaaS businesses in general are well-suited for freemium models because they make the bulk of their profits on reoccurring fees over a long time horizon, and can thus recoup upfront investment in a customer relationship ✔ When customers realize more value with more use, and thus feel they can “afford” upgrade ✔ Large number of free users can allow you to study their behavior and improve your product ✔ When value can be understood quickly and doesn’t require complex onboarding / integration ✔ When free customers provide referrals that can turn into paying customers ✔ When you have received a large amount of funding from investors seeking rapid growth</td>
</tr>
<tr>
<td>Watch Out!</td>
<td>❌ When the cost to serve free users is unsustainable (hardware, human labor, etc.) ❌ When the free offering is too good and customers fail to convert ❌ “Free” may give perception of lack of quality ❌ If you are pursuing a small or very specialized market, freemium may anchor your product to a low price while failing to provide a large volume of customers to convert ❌ Be careful not to overly rely on “free” to bring users. Marketing is still important</td>
</tr>
</tbody>
</table>
4. Structure your pricing model as a compromise between the upper bound and lower bound

1. Freemium

“Freemium” products typically limit service along one or more of these dimensions:

<table>
<thead>
<tr>
<th>Capacity</th>
<th>Feature</th>
<th>Use-Case</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited by number of users, videos, messages, emails, etc.</td>
<td>Certain features are free, and others are restricted to paying customers</td>
<td>Certain categories of customers use the product for free</td>
<td>A free trial expires after a certain amount of time</td>
</tr>
</tbody>
</table>

Assumes certain customers will be supported indefinitely and never pay

<table>
<thead>
<tr>
<th>Example</th>
<th>Example</th>
<th>Example</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dropbox</td>
<td>LinkedIn</td>
<td>Amazon Prime</td>
<td>Salesforce</td>
</tr>
</tbody>
</table>

Example:
- Dropbox provides free storage up to 2GB
- LinkedIn displays advanced search fields to all users, but only subscribers can use them
- Amazon Prime allows students to use its service for free
- Salesforce offers full access to all features for 30 days

Source: “Software as a Service Pricing Strategies,” Bessemer Venture Partners, 2013
### Consumption

<table>
<thead>
<tr>
<th>Definition</th>
<th>“Pay as you go” with a set price per unit of consumption Often combined with volume discounts that may be negotiated as part of a contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumption</td>
<td>Customers understand the value of your product, but can’t predict their demand</td>
</tr>
</tbody>
</table>
| **Best Case Uses** | ✔ Very easy to communicate to a customer  
| | ✔ Addresses anxiety around unpredictable usage  
| | ✔ Higher prices for lower usage pass along increased costs for lower volumes  
| | ✔ Flexibility may be part of your value proposition to customers |
| **Watch Out!** | ❌ Because revenues may not be predictable, customer base should be diversified to prevent cash flow problems |
| **Example** | Amazon Web Services charges customers for only the bandwidth they use each month. Bandwidth usage is often unpredictable for customers and Amazon’s ability to cover spikes in traffic is part of its value proposition |
### Tiered

| Definition | • Volume discounts at certain levels of usage  
|           | • Often overlaps with “freemium,” where the first tier of use is free |
| Assumption | Both you and your customer intend to have a long-term, indefinite relationship |
| Best Case Uses | ✔ A customer’s usage is expected to increase over time  
|           | ✔ Increased tiers should be linked to both tangible and intangible benefits (increasing levels of customer service, etc.) to provide a feeling of value  
|           | ✔ Provides predictable reoccurring revenue |
| Watch Out! | ✗ Tier placement should be rooted in data and customer behavior  
|           | ✗ Customers may feel locked into an arrangement that may not meet their future needs |
| Example | Salesforce has five pricing tiers that range from $5 / user to $260 / user, depending on included features for their membership |
A tiered SaaS pricing model is typically combines customer segmentation or usage levels with value metrics.

**Customer Segments vs. Value Metric**

<table>
<thead>
<tr>
<th>Customer Segment</th>
<th>Segment A</th>
<th>Segment B</th>
<th>Segment C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>$X</td>
<td>$X</td>
<td>$X</td>
</tr>
<tr>
<td>Metric A</td>
<td>Amount</td>
<td>Amount</td>
<td>Amount</td>
</tr>
<tr>
<td>Metric B</td>
<td>Amount</td>
<td>Amount</td>
<td>Amount</td>
</tr>
<tr>
<td>Metric C</td>
<td>Amount</td>
<td>Amount</td>
<td>Amount</td>
</tr>
</tbody>
</table>

**Usage Levels vs. Value Metric**

<table>
<thead>
<tr>
<th>Usage Level</th>
<th>X of Metric</th>
<th>Y of Metric</th>
<th>Z of Metric</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>$X</td>
<td>$X</td>
<td>$X</td>
</tr>
<tr>
<td>Metric A</td>
<td>Amount</td>
<td>Amount</td>
<td>Amount</td>
</tr>
<tr>
<td>Metric B</td>
<td>Amount</td>
<td>Amount</td>
<td>Amount</td>
</tr>
<tr>
<td>Metric C</td>
<td>Amount</td>
<td>Amount</td>
<td>Amount</td>
</tr>
</tbody>
</table>

**Example**

Weebly offers several packages for make-your-own websites: a "professional" package for businesses that do not sell online, and an "ecommerce" package for businesses that do sell online.

**Example**

Salesforce charges based only on the number of user accounts with access to the product. Its pricing doesn’t vary whether those users are for a hedge fund or a hospital.
What else should you charge for?

Your needs may require charging additional fees on top of reoccurring revenue:
• Set-up, onboarding or installation fees
• Maintenance or service fees
• Consulting, problem solving or other ongoing optimization

However, your preference should be to bake these costs into reoccurring pricing, as charging additional fees can have deleterious consequences
• Increases risk of trying your new product or service
• May prompt reevaluation of continuing with your service
• May cause resentment or feelings of distrust

If you must charge additional fees, preserve your customer’s trust:
• Be upfront and honest about the fee structure; don’t try to hide them or sneak them in
• Explain why they are necessary and the value they bring to customers’ business
Examples
**Hubspot:**
*Software to manage marketing leads*

<table>
<thead>
<tr>
<th>Plan</th>
<th>BASIC</th>
<th>PRO</th>
<th>ENTERPRISE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>$200/month</td>
<td>$800/month</td>
<td>$2,400/month</td>
</tr>
<tr>
<td>(billed annually)</td>
<td></td>
<td>(billed annually)</td>
<td></td>
</tr>
<tr>
<td>Onboarding fee</td>
<td>Required Onboarding $600</td>
<td>Required Onboarding $3,000</td>
<td>Required Onboarding $5,000</td>
</tr>
<tr>
<td>Value metric:</td>
<td>Number of contacts</td>
<td>Number of contacts</td>
<td>Number of contacts</td>
</tr>
<tr>
<td>Contacts</td>
<td>100 Contacts + $100 per 1k extra</td>
<td>1,000 Contacts + $1 per 1k extra</td>
<td>10,000 Contacts + $10 per 1k extra</td>
</tr>
</tbody>
</table>

**Incorporates freemium**

**Onboarding fee**

**Value metric:** Number of contacts
Hootsuite:
Software to manage social media accounts

Features are selected based on value to customer segment

Incorporates freemium

Defines pricing by customer segment
DocuSign: eSignatures for legal documents

Above unlimited number of documents, access to other features defines offering

Varies product offering by customer segment

Two value metrics: number of documents, number of users

Special bulk pricing available for higher volume

- Individual: $10 per month when paid annually
  - A Simple Start: Send Documents for Signature: 5/Month, Single User Only

- Professional: $20 per user, per month when paid annually
  - Business Essentials: Send Documents for Signature: 10/month, Custom Branding

- Business: $30 per user, per month when paid annually
  - Advanced Features: Send Documents for Signature: Unlimited, Custom Branding, Reusable Templates

- Business Premium: $125 per user, per month when paid annually
  - Power Plan: Send Documents for Signature: Unlimited, Custom Branding, Reusable Templates, Recipient types, Form and field validation, Signer attachments, Collaborative fields

- Enterprise
  - Need more users or features?
    - Call for pricing 1-877-720-2040
  - Special Features
    - Complete and Customizable
    - 10+ Users, Custom Branding, Reusable templates, Recipient types, Form and field validation, Signer attachments, Collaborative fields
    - Bulk Send: Send the same document to hundreds of people (up to 250/month), PowerForms: Distribute documents on your website for anyone to sign on-demand (up to 250/year)
**Zendesk:**

*Helpdesk management for technology companies*

**Free trial accustoms customers to better features**

<table>
<thead>
<tr>
<th>Plan</th>
<th>Features</th>
<th>Price</th>
<th>Billing Options</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ESSENTIAL</strong></td>
<td>All the fundamentals with minimal setup</td>
<td>$5 per agent per month*</td>
<td>Billed annually or $9 month-to-month</td>
</tr>
<tr>
<td></td>
<td>• Unlimited email &amp; social channels</td>
<td></td>
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<tr>
<td></td>
<td>• Basic knowledge base</td>
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<td></td>
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<td></td>
<td>• Web Widget &amp; Mobile SDK</td>
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<td></td>
<td>• Agent Macros</td>
<td></td>
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<tr>
<td><strong>TEAM</strong></td>
<td>Work together better with your growing team</td>
<td>$19 per agent per month*</td>
<td>Billed annually or $25 month-to-month</td>
</tr>
<tr>
<td></td>
<td>• Essential &amp;...</td>
<td></td>
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<td></td>
<td>• Branded Help Center</td>
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<td></td>
<td>• Customer portal</td>
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<td></td>
<td>• Business rules</td>
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<td></td>
<td>• Performance Dashboards</td>
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<td></td>
<td>• Public Apps Marketplace</td>
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<tr>
<td><strong>PROFESSIONAL</strong></td>
<td>Customize and improve global performance</td>
<td>$49 per agent per month*</td>
<td>Billed annually or $59 month-to-month</td>
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<td></td>
<td>• Team &amp;...</td>
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<td></td>
<td>• Community forums</td>
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<td></td>
<td>• Multilingual content</td>
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<td></td>
<td>• Business hours &amp; SLAs</td>
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<td></td>
<td>• CSAT surveys</td>
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<td></td>
<td>• Insights analytics</td>
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<td></td>
<td>• Custom private apps</td>
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<tr>
<td><strong>ENTERPRISE</strong></td>
<td>Ultimate control and flexibility that scales</td>
<td>$99 per agent per month*</td>
<td>Billed annually or $125 month-to-month</td>
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<tr>
<td></td>
<td>• Professional &amp;...</td>
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<td>• Custom agent roles</td>
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<td>• Multibrand support</td>
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<td>• Ticket Forms</td>
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<td>• Multiple schedules</td>
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<td>• Hourly Insights analytics</td>
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<td>• Launch Success Program</td>
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<td></td>
<td>• Auditing &amp; admin controls</td>
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</tbody>
</table>

*Discounted pricing with year-long commitment*
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