OPENVIEW

THE ULTIMATE SAAS PRICING GUIDE

FOR SEED STAGE COMPANIES

FOREWORD

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?

» **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 judgement 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?

OpenView's Ultimate SaaS Pricing Guide for Seed Stage Companies 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.
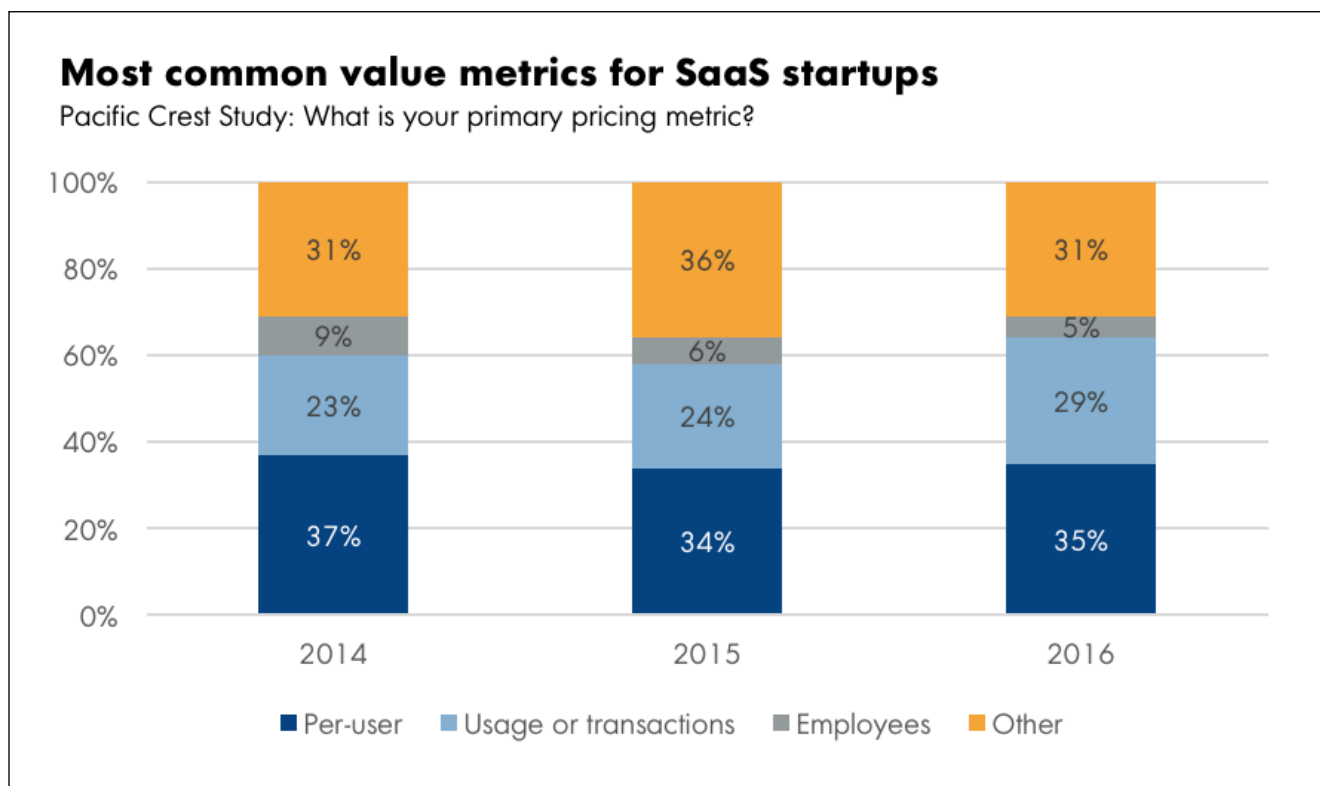
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WHY DO SAAS COMPANIES STILL CHARGE BY THE USER?

You don't need to look very hard 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 Crest. 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 pages we analyzed.

Most common value metrics for SaaS startups
Pacific Crest Study: What is your primary pricing metric?

	2014	2015	2016
Other	31%	36%	31%
Employees	9%	6%	5%
Usage or transactions	23%	24%	29%
Per-user	37%	34%	35%

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	
Virtually unlimited viewing	Standard features	Advanced integrations with Pardot, Hubspot, Marketo, and Salesforce
Wistia branding on player	Virtually unlimited viewing	
	No Wistia branding	Account management, SLAs, Priority Support
Get started	Start for Free. Upgrade at any time.	Get in touch

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.

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.
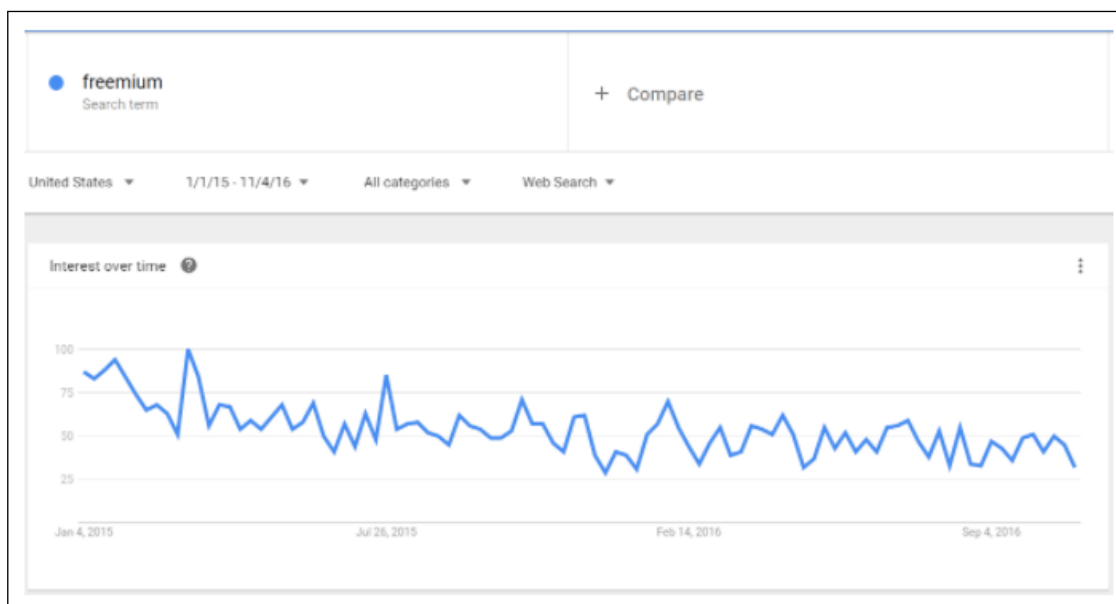
This decline is backed up by survey data from SaaS operators. In its 2015 annual survey, Pacific Crest asked SaaS operators how much of their company's new ACV was driven by freemium leads. Three-quarters of companies generated no new ACV from freemium, and only 9% derived greater than one-quarter of 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.

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 products. 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."

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 <u>price ranges</u> 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.

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.
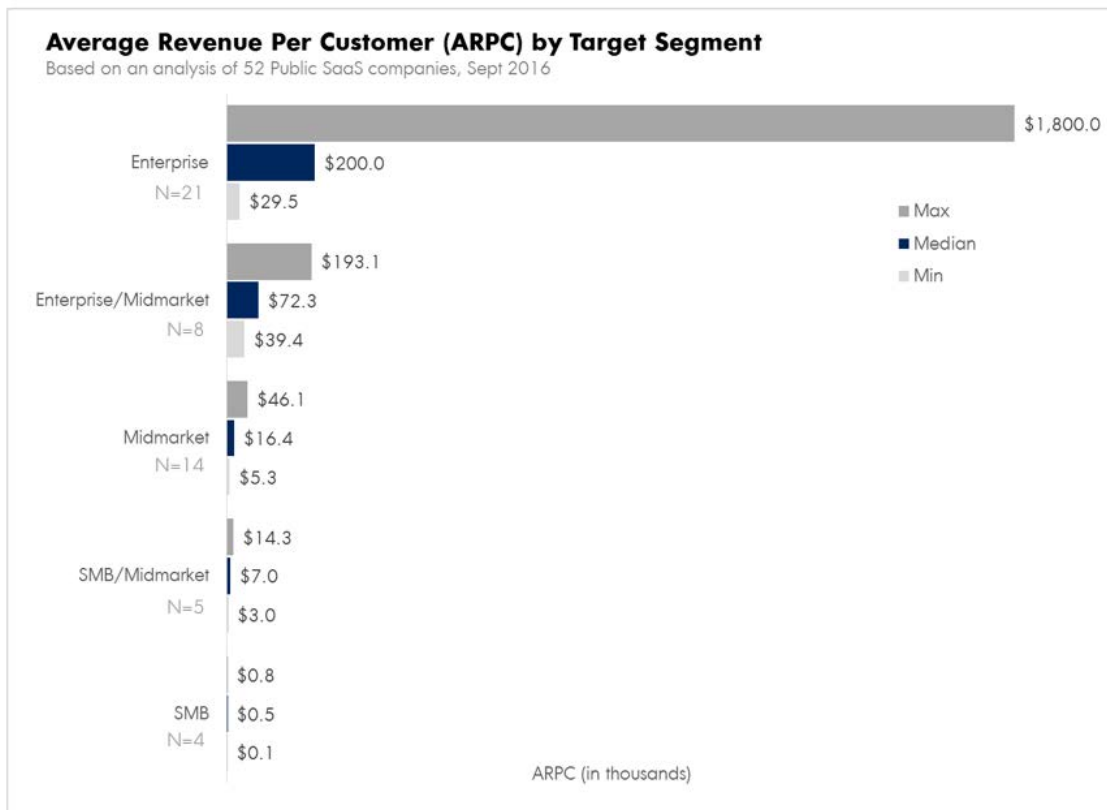
To decide on a launch price, you'll need to quickly gather as much data as you can from four sources: industry benchmarks, competitive analysis, economic value analysis and market research. No data point is a single source of truth, rather you'll want to stitch together the insights from across all four 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 (see chart on next page).

Average Revenue Per Customer (ARPC) by Target Segment
Based on an analysis of 52 Public SaaS companies, Sept 2016

Enterprise N=21	Max	$1,800.0
	Median	$200.0
	Min	$29.5
Enterprise/Midmarket N=8	Max	$193.1
	Median	$72.3
	Min	$39.4
Midmarket N=14	Max	$46.1
	Median	$16.4
	Min	$5.3
SMB/Midmarket N=5	Max	$14.3
	Median	$7.0
	Min	$3.0
SMB N=4	Max	$0.8
	Median	$0.5
	Min	$0.1

Legend: ■ Max ■ Median ■ Min

ARPC (in thousands)

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, of $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 Siftery 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'.

ANTI-LEAN STARTUP PRICING: HOW X.AI IS MAKING IT WORK

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-lean. 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.

Pricing

All plans include your AI personal assistant to schedule your meetings. No app. Nothing to download.

START YOUR 14-DAY FREE TRIAL

UNLIMITED MEETINGS

- Personal -

$0 free

JOIN THE WAITLIST

✔ **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

- Professional -

$39 /month

SIGN UP

✔ **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

✔ **VIP contacts** Allow close contacts to set up a meeting with you by emailing Amy and Andrew directly. No need to ask you first.

- Business -

$59 /user/month

COMING SOON

✔ **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.

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."

"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.

CLOSING

By now you've learned about selecting the right value metric for your product, acquisition tactics to try in lieu of freemium and a simple framework for pricing your products. You've also seen how x.ai and Meetup took time, resources and research to nail the pricing for their SaaS product launches.

Are you ready for the next step? In our next guide, The Ultimate SaaS Pricing Guide for Expansion Stage Companies, you'll learn about publishing pricing online, how to redesign your packaging, introducing a self-service package to create Product Qualified Leads and how to raise your prices.

ABOUT THE AUTHOR

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Kyle helps OpenView's portfolio companies accelerate top-line growth through segmentation, value proposition, packaging & pricing, customer insights, channel partner programs, new market entry and go-to-market strategy.

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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.

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