GO-TO-MARKET

THE ULTIMATE SAAS PRICING GUIDE FOR EXPANSION STAGE COMPANIES

OPENVIEW

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FOREWORD

At each stage of your company's growth, it's vital to consider how to monetize your products and services along the way. During the seed stage, you asked fundamental questions like who will pay for the product you just built and how much will they pay for it. You wondered how prospective customers would derive value from that product. You had limited data to work with, but endless possibilities.

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

OpenView's Ultimate SaaS Pricing Guide for Expansion Stage Companies walks you through important pricing, packaging and positioning decisions at this vital stage so you can extract value from existing and prospective customers while delivering a fairly-priced product for which they are willing to pay.

SAAS PRICING BEST PRACTICES FROM 90 COMPANIES:

WHY THE HOTTEST SAAS BUSINESSES NOW PUT THEIR PRICING ONLINE

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

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

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

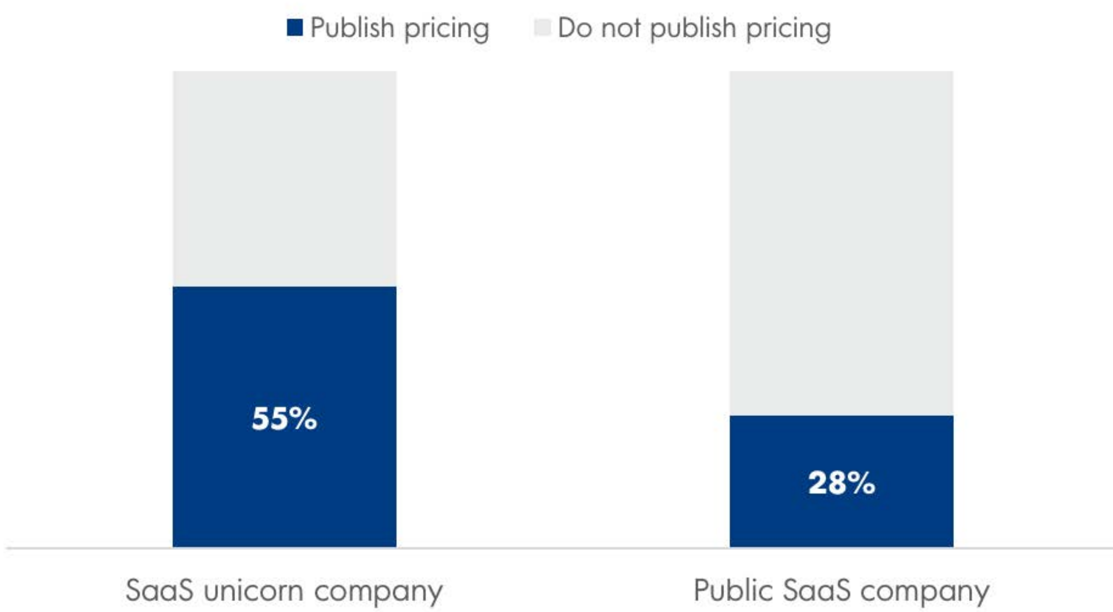
- **Lead qualification:** Clearly sets expectations on how much InsideSales.com will cost so that less serious prospects or those looking to be educated do not waste the sales team's time.
- **Optimization opportunities:** Allows InsideSales.com to test different package configurations, messaging and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

2016 SOFTWARE PRICING PAGE BENCHMARKING STUDY

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

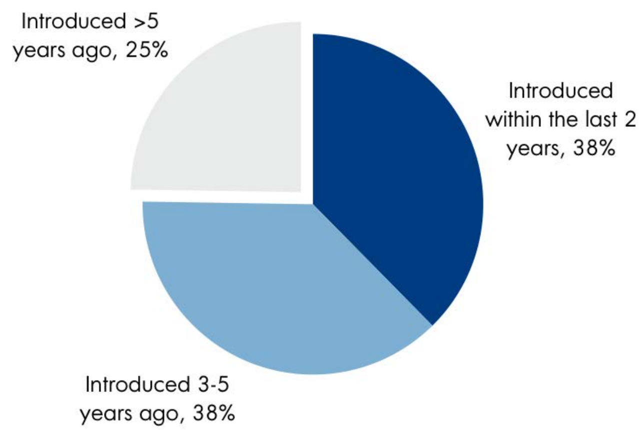
LEARNING 1: SaaS unicorns are 2x more likely to publish their pricing compared to public companies

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



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

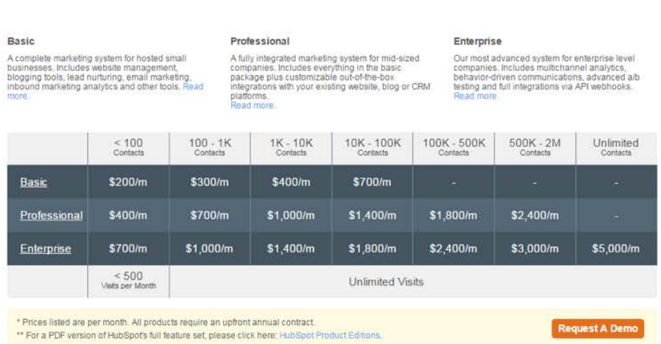
Among the companies that currently publish their pricing, three-quarters started doing so within the past 5 years, based on data procured from the Wayback Machine internet archiving service. Two-in-five started publishing their pricing only in the last two years, including InsideSales.com as well as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



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

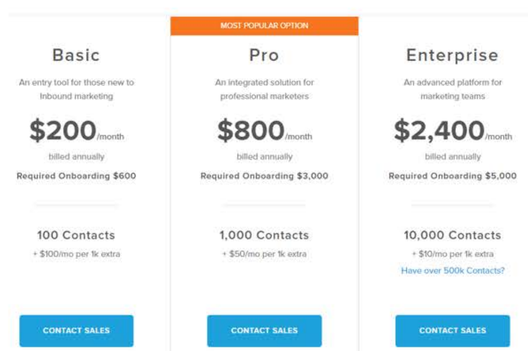
Fast forward to today. While they've kept a similar underlying packaging and pricing structure, HubSpot has seriously simplified the way they communicate their pricing and the options available to prospective customers. HubSpot has also improved the way it guides prospects into the ideal package, for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

October 2011
Hubspot.com/pricing



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

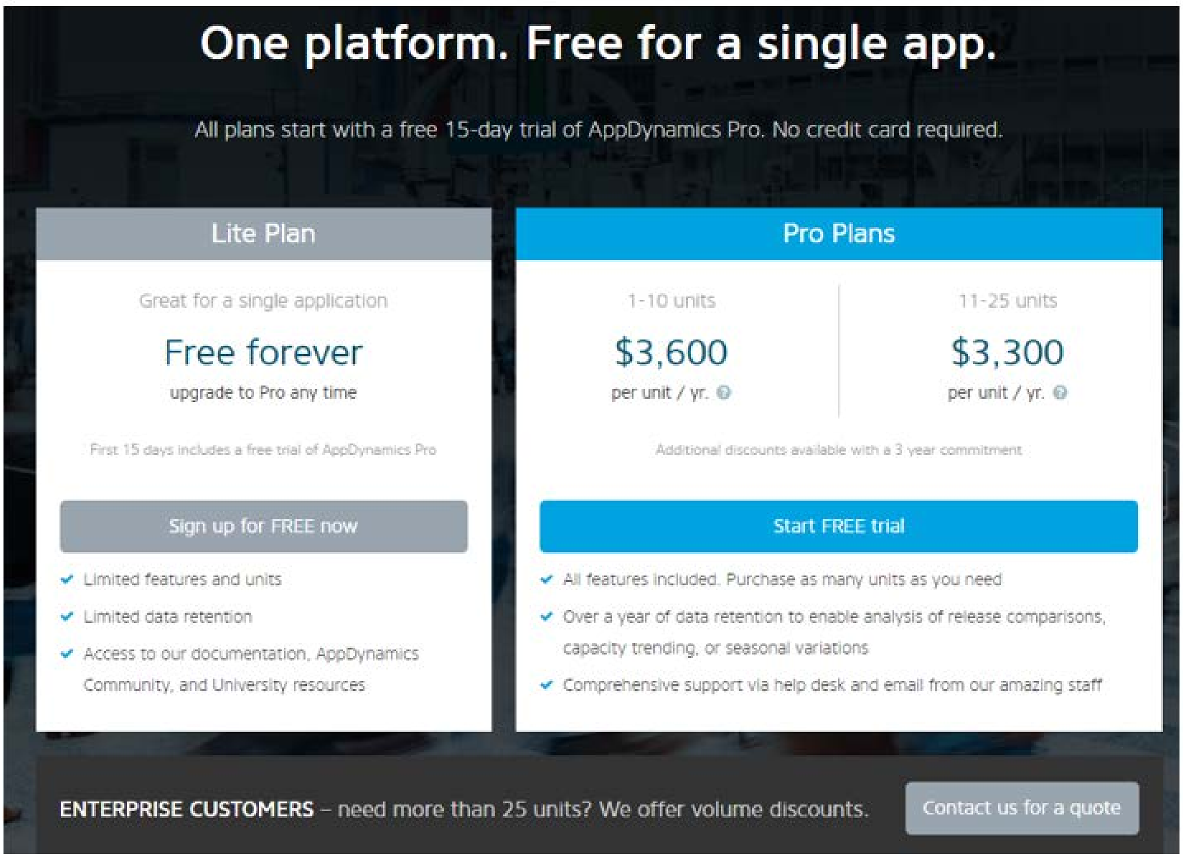
May 2016
Hubspot.com/pricing



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

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

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

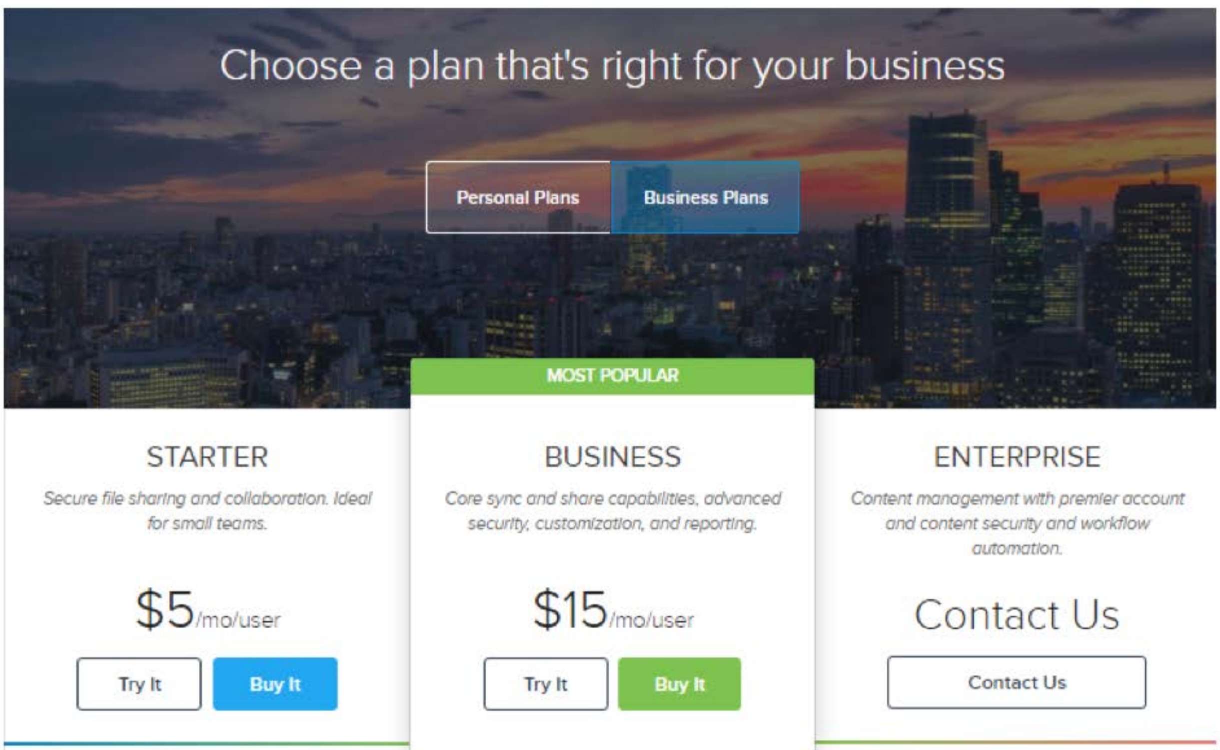


LEARNING 4: Good/Better/Best packages and user-based pricing are still the norm

To attract funding, software companies need to prove that they successfully land and expand their customers. This requires selecting a packaging and pricing model that makes it seamless for customers to get started using the product, then rapidly increase spending over time.

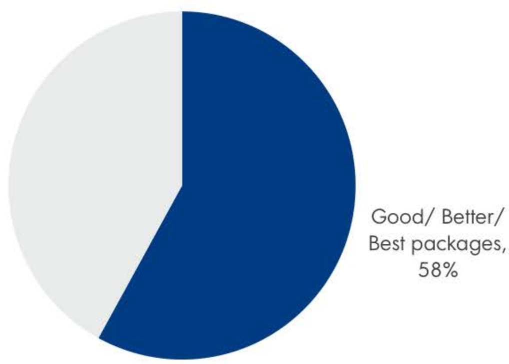
A best practice for enabling land and expand is through a Good/Better/Best package line-up, with increasing functionality and higher prices as a customer moves from Good to Better to Best. With a Good/Better/Best line-up, a budget conscious or lower usage buyer can start out small with a light version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

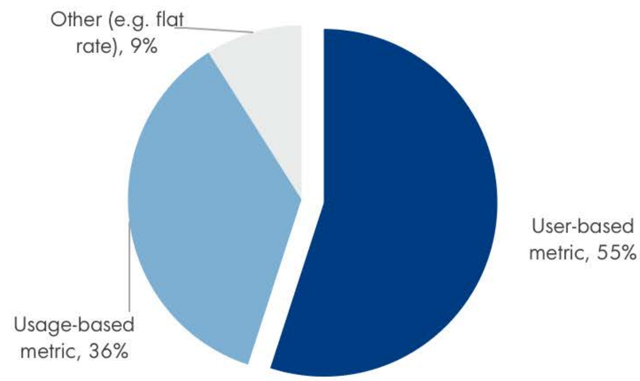
Of the companies that publish their pricing, 58% of them have some form of Good/Better/Best packaging. This includes InsideSales.com and HubSpot, as mentioned earlier, plus many others like Box, Domo and Salesforce.



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

Packaging approach **Pricing metric**





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

TAKEAWAYS FOR EXPANSION STAGE SOFTWARE COMPANIES

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

Do you publish your pricing? Why or why not? We'd love to hear from you and learn about your results!

WHY IT'S TIME TO RETHINK YOUR PACKAGING STRATEGY

INSIGHTS FROM 100 SAAS COMPANIES

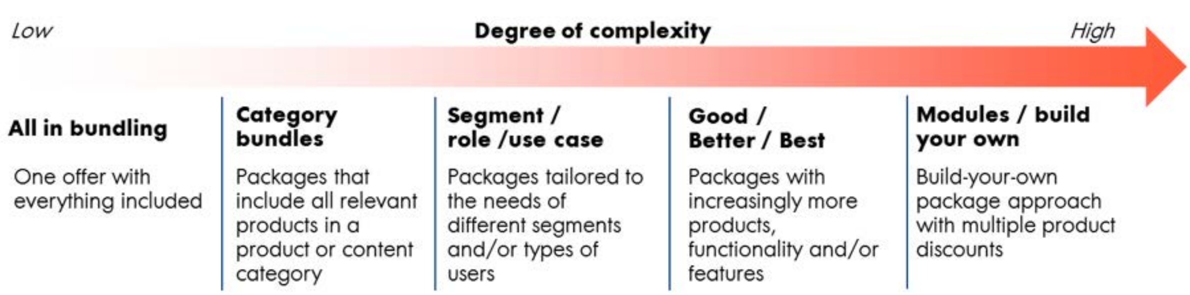
Packaging redesign consistently drives large revenue gains for expansion stage SaaS companies. By the time a company hits the expansion stage, they have spent hefty sums of money to improve the product and scale their go-to-market function, and now have a hodge-podge of customers at varying stages in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

> Sidebar – By packaging, I am referring to how companies assemble their features, functionality and services into different editions that customers can purchase. (Not this kind of packaging!).

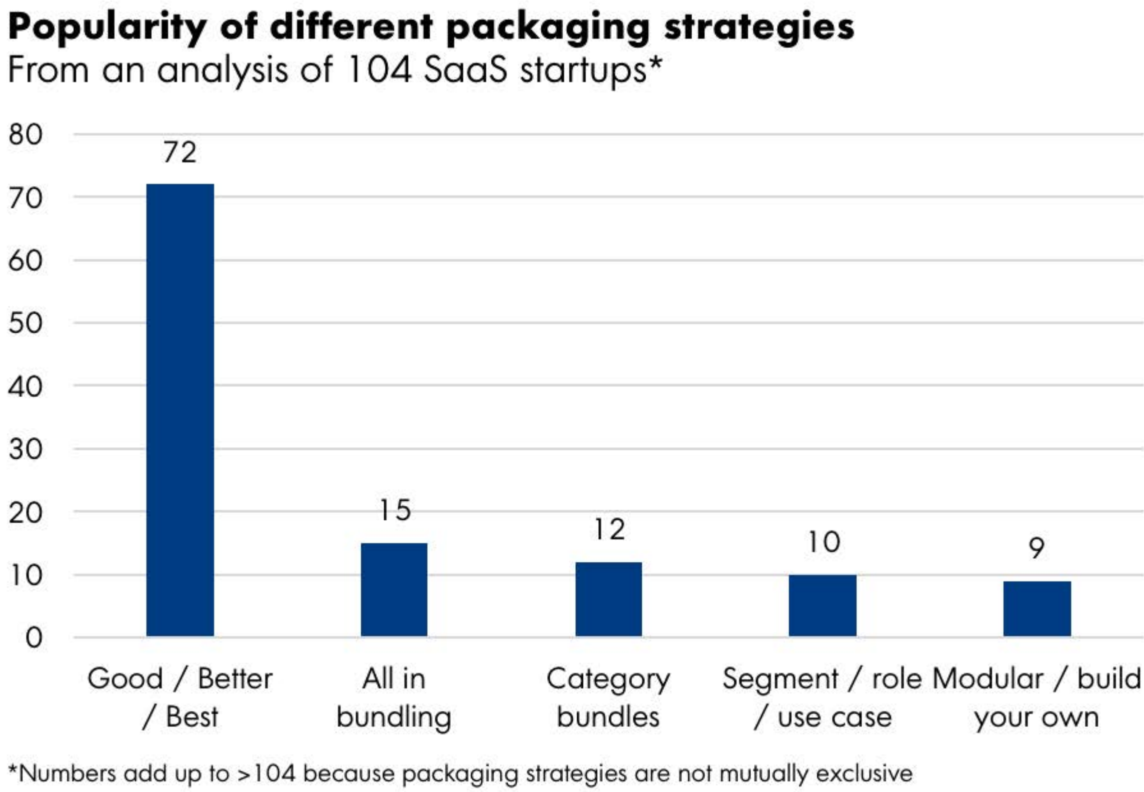
When done correctly, a packaging redesign both accelerates a land-and-expand business strategy and improves the customer experience. Meanwhile, it helps the sales team speak to the needs of different customer segments and helps the product team prioritize investments in new features and services.

2016 SAAS PACKAGING BENCHMARKING STUDY

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



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



Good/Better/Best packaging appears most frequently at SaaS companies that publish their pricing. 72 of the 104 SaaS companies in the study, including Slack, DocuSign, Lesson.ly and InsideSales.com, employ some type of Good/Better/Best strategy, and for good reason. This strategy keeps things simple while creating a natural upsell path for customers. Plus it allows companies to reach a variety of potential customers wherever they are in their product maturity, from those who just needs the basics to those who want it all.

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

All-in bundling, the second most popular strategy, works best in situations when a company leads the market in its breadth of products, but not necessarily depth within specific applications; when they can credibly claim to give a fully integrated solution; and when customers value the solution but are unclear about separate components.

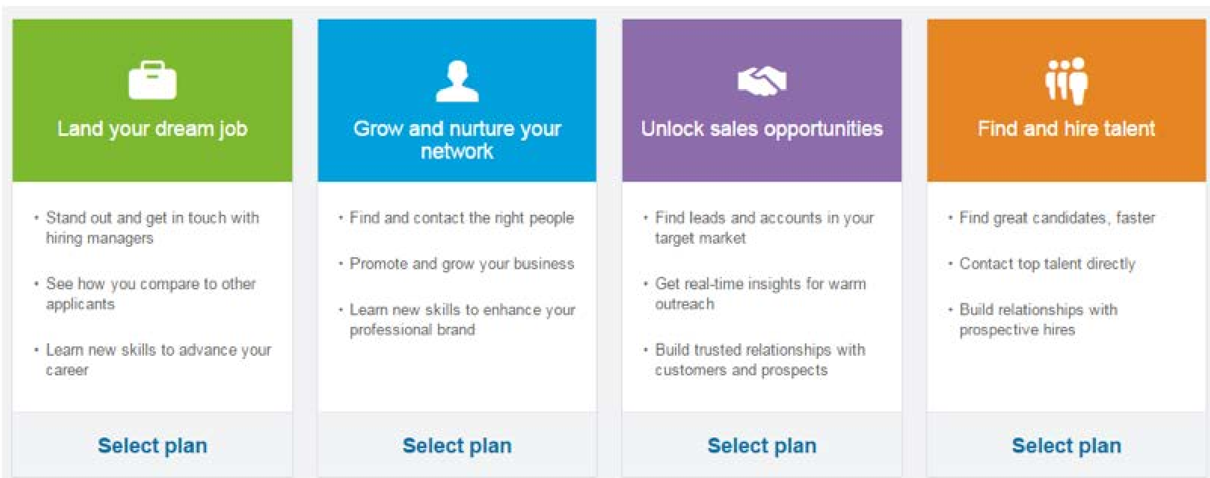
Microsoft Office, the classic example of all-in bundling, was not always the leading desktop application software. As recently as 1995, they fell behind Wordperfect in market share for word processing software and Lotus 1-2-3 for spreadsheets. While Microsoft did not have best-of-breed point solutions,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

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

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

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

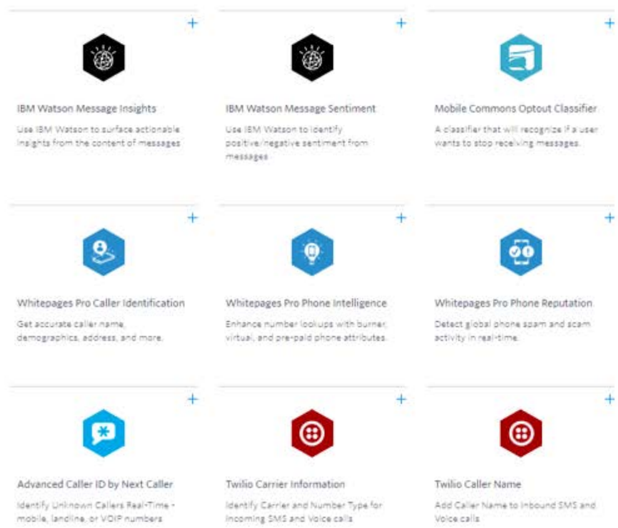
LinkedIn, the professional social network, has pursued a segment / role / use case strategy. They build off the same foundation (i.e. access to their network of professionals), but have created separate packages and product marketing that speaks to how different audiences can benefit from it. Those audiences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



The **modular / build your own approach** was the least common in the study, which was not surprising. This approach too often feels like nickel-and-diming to the customer, lengthens the sales cycle and puts a huge burden on the sales force. It normally is a fall back plan when, for instance, a portfolio was built through acquisitions that don't fully fit together or a sales team is hell-bent on upselling existing customers rather than going after new customers. Success requires customers and sales knowing enough about the product to handle complexity, or a customer base having very specialized needs.

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

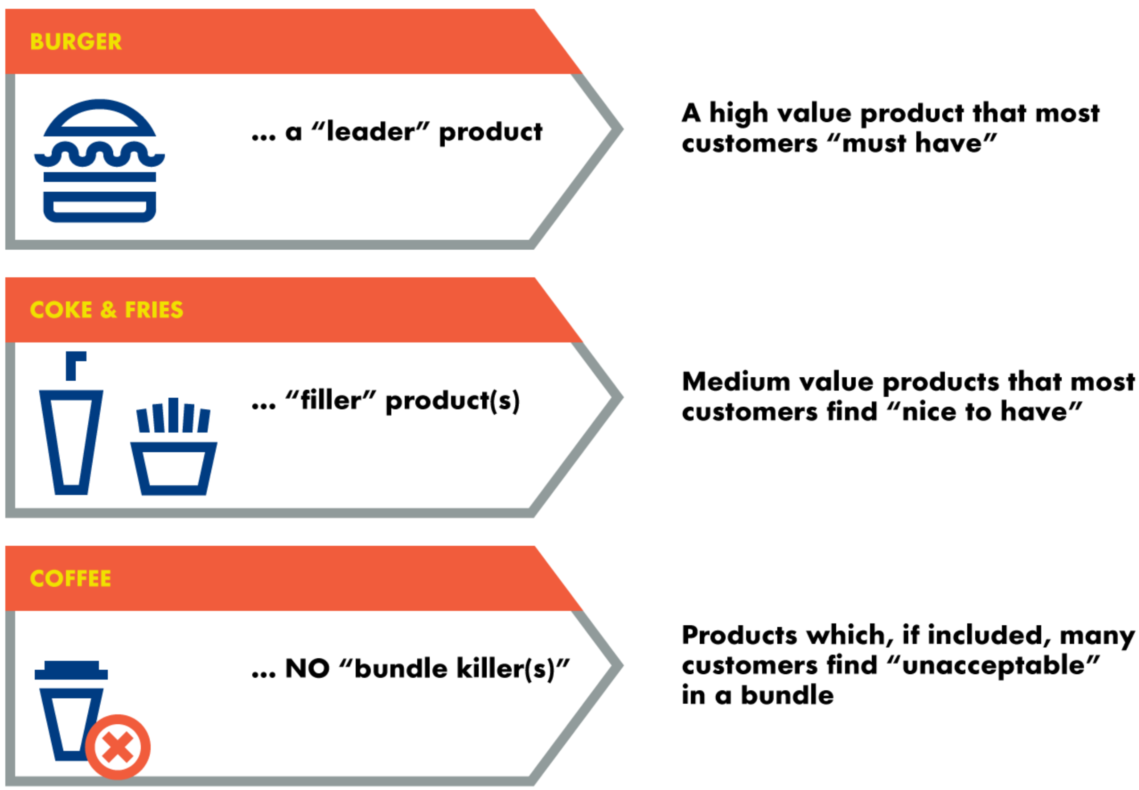
It also feeds into Twilio's recently announced add-ons marketplace, which allows customers to access pre-integrated partner technologies that are billed through Twilio and all charged on a pay-as-you-go basis. These include IBM Watson Message Insights, Whitepages Pro Caller Identification, Payfone TCPA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



BUILDING GOOD / BETTER / BEST PACKAGES

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

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



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

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

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

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

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

REINVENTING FREEMIUM:

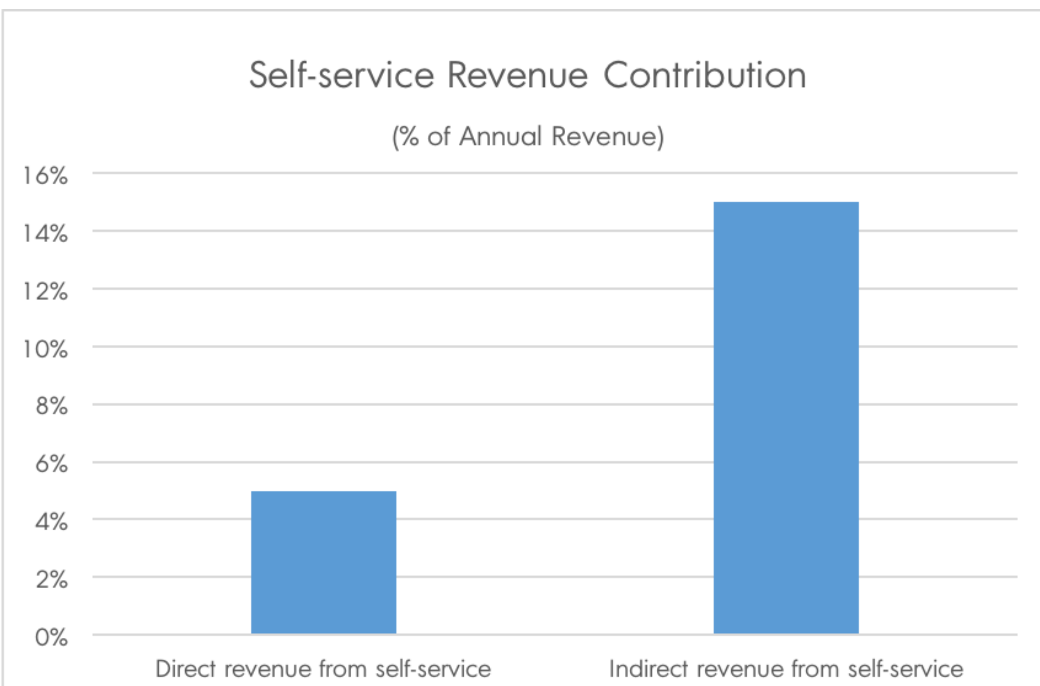
HOW A SELF-SERVICE PACKAGE CAN DRIVE PRODUCT QUALIFIED LEADS

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

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

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

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



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

FIELD SALES IS NOT THE ONLY ROUTE INTO ENTERPRISE CUSTOMERS

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

The 2013 Pacific Crest SaaS Survey, which included responses from 155 SaaS companies, adds stats to this conventional wisdom. It found that 70% of software companies with $25k-$100k in initial ACV relied primarily on field sales to drive customer acquisition, as did 92% of software companies with $100-$250k in initial ACV. [1] Software companies with lower initial ACV, on the other hand, went to market primarily through inside sales ($5k-$25k) or online distribution (<$5k).

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

- **Expensive:** That same Pacific Crest survey found that field sales companies spend $0.96 for each dollar of initial ACV from a new customer, while online distribution companies spend only $0.55.

- **Restrictive:** This sales motion attracts only a small portion of prospective customers – sophisticated buyers ready to make an enterprise purchase. These prospects are most likely familiar with the market landscape and will involve procurement in the process.

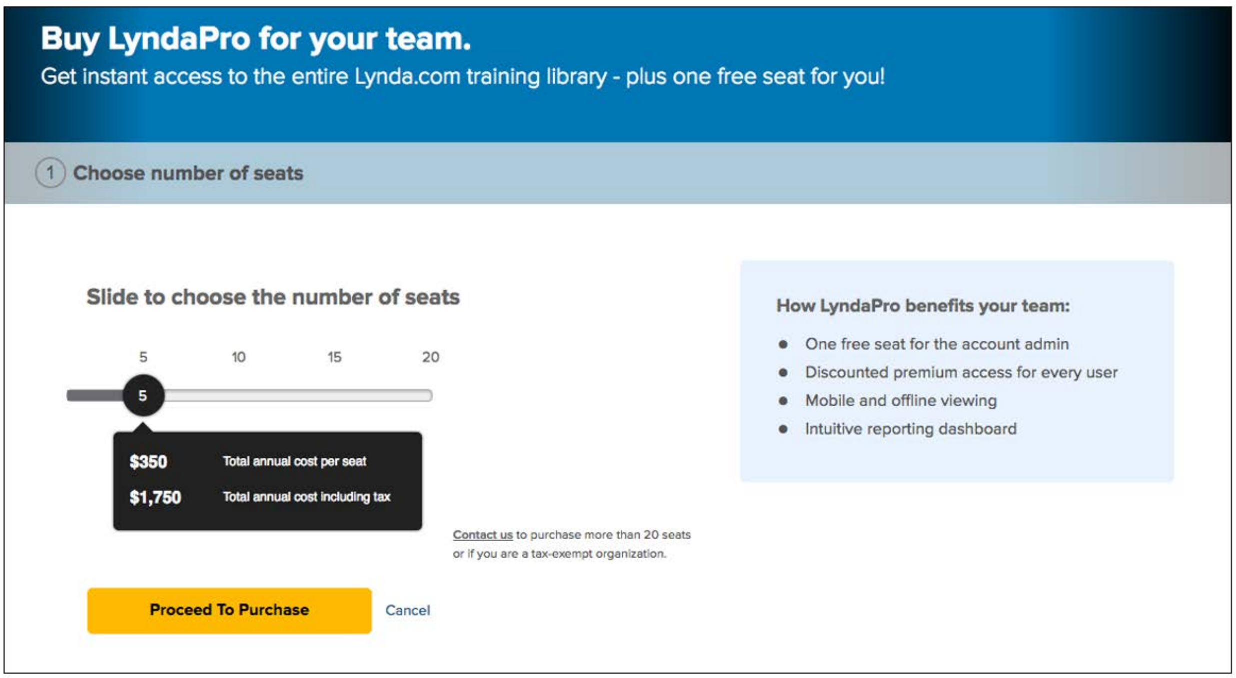
- **Slow:** It takes significant time and resources for the field sales team to reach out to enterprise buyers, schedule initial meetings, go on-site to demo the product and negotiate back and forth.

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

LEARNING FROM SUCCESSFUL PEERS

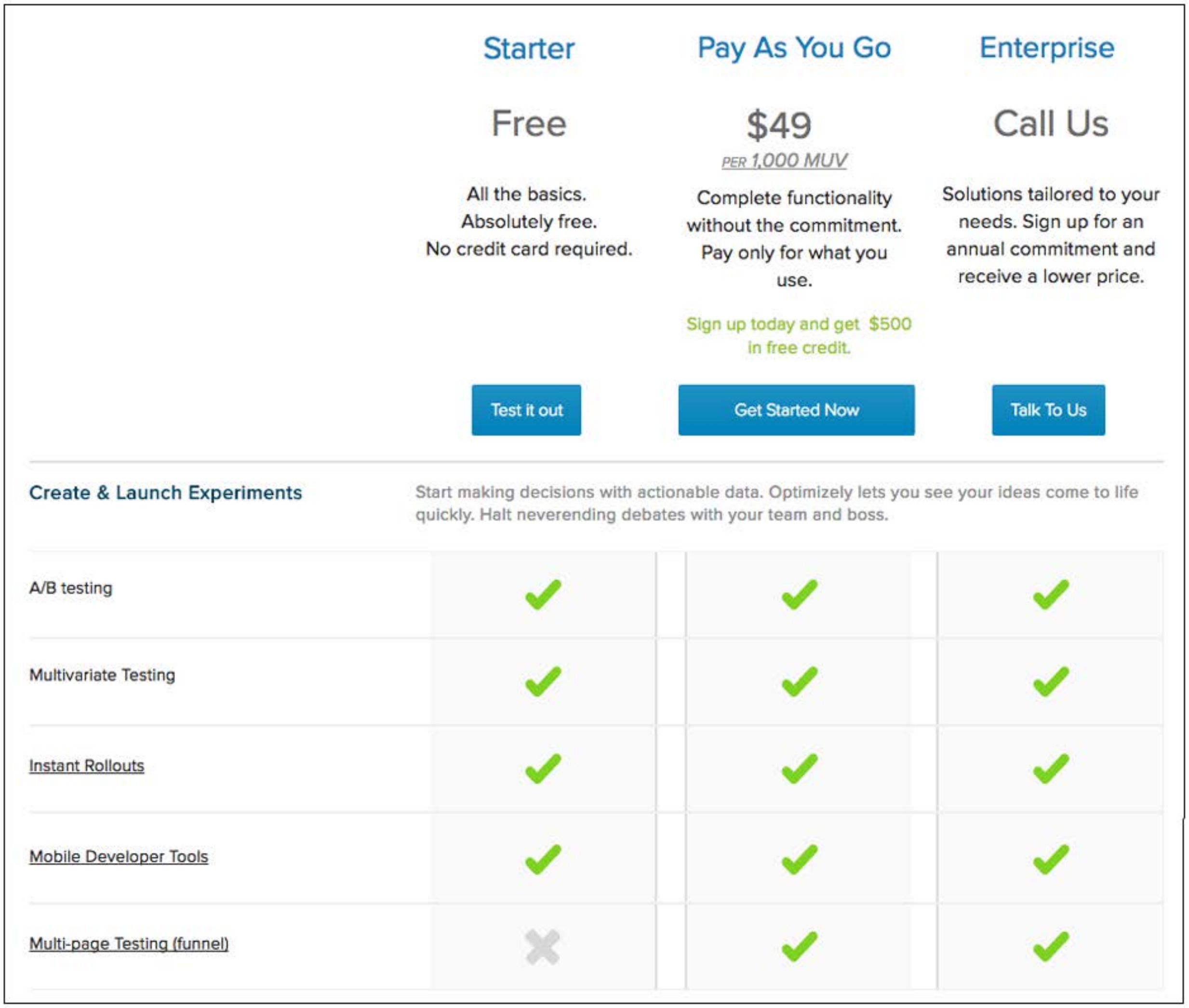
Several enterprise-focused software companies, including Lynda.com and Optimizely, have successfully incorporated PQL engines into their portfolio to broaden their reach and accelerate sales velocity. These PQL engine products come with a robust feature set at an attractive starting price, but they have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

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



When a company hits the 20 seat limit or has multiple teams simultaneously using Lynda.com, it triggers an opportunity for the sales team to pitch an enterprise-wide deal to HR leadership. The enterprise product comes with comparable features to the PQL one, but covers all employees in an organization and includes a handful of enterprise-specific features like single sign-on, integrations and more detailed reporting. This sales motion has enabled Lynda.com to gain numerous internal champions and momentum within Fortune 1000 companies, and then eventually kick out incumbent learning solutions.

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



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

KEYS TO SUCCESS FOR INTRODUCING A PQL ENGINE

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

1. **Market segmentation:** Understand the distinct segments and buyer personas in the market, and prioritize which one(s) to target with this new product. Ensure that there is a sizeable enough addressable market opportunity worth pursuing with this introduction.

2. **Voice of customer insights:** Root the product design and feature set in a deep understanding of needs among both prospects and customers. It is especially important to identify the features and amount of usage that prospects are willing to give up, but that existing customers could not do without.

3. **Usage analysis:** Look carefully at usage data among the customer base to set appropriate usage caps or thresholds on the PQL engine so that it does become overly appealing to existing enterprise customers.

4. **Online sales dialog:** Build an online sales dialog and checkout process that enable a frictionless purchase. For many software companies, this entails introducing payment by credit card, monthly recurring billing options, click through agreements and automated onboarding.

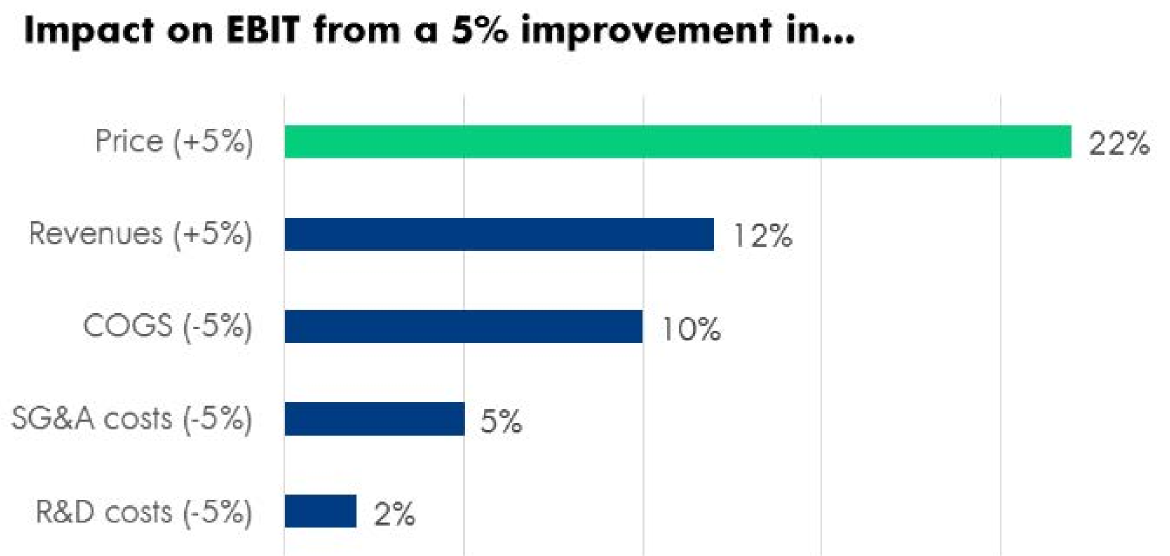
5. **Margin analysis:** Run the numbers to confirm that the PQL engine will have at least break-even profitability. It does not need to be a profit driver on its own, but there should be enough margin that it can fund itself and sufficient demand gen investments.

6. **Sales alignment:** Align the sales and customer success teams to operate in this new model, and remove any barriers to the PQL product adoption. For instance, onboarding support for the PQL product should set the stage for the eventual enterprise sale, rather than just training the customer on the product they initially bought.

WHEN & HOW TO RAISE PRICES

WITHOUT LOSING CUSTOMERS

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



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

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

Take StatusPage, the leading hosted status page provider acquired by Atlassian. As Co-Founder Steve Klein describes in detail, StatusPage started out with two price points – free and $49/month. Over time, they removed the free tier and managed to raise prices by up to 8x with minimal impact to conversion or churn. This was a key lynchpin in their efforts to grow average revenue per user (ARPU) by 2.4x and reach a $2.5M annual revenue run rate over the course of only two years.

BIGPANDA AND PRICING FOR FAIR VALUE EXCHANGE

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

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

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

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

ROOM TO RAISE PRICES

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

- » **Sign 1:** Prospects don't push back on pricing. Does your sales team have the authority to discount, but rarely uses it? When you send a proposal to a prospect, do they comment on everything except for the price? For better or worse, software buyers have been conditioned to negotiate, especially when procurement gets involved. If they don't negotiate with you, you're probably leaving money on the table.
- » **Sign 2:** Customers tell you how cheap you are. Have customers ever told you that they are surprised you are able to make money with your current pricing? Do they (favorably) compare you to other solutions in their tech stack, mentioning how they prefer you but pay 2x, 5x, 10x the price for another piece of technology? Or, my personal favorite, are customers satisfied even if they only implement a portion of your software because they see the investment as a 'drop in the bucket'? In general, when customers are consistently happy with your pricing, they will not balk at paying more.
- » **Sign 3:** You create a very high ROI. Does your software demonstrably save time, reduce waste or increase your customers' revenue? Are you capturing enough of that value creation? As a rule of thumb, software companies can safely capture 10-20% of their economic value.
- » **Sign 4:** You have not touched pricing for years. Did you set prices a while ago and have not given them another look since? Or, worse, have you not changed pricing since you launched? Do you have a strong point person in charge of evaluating and managing your pricing strategy? Many SaaS companies put a 5-7% annual price escalator in their contracts, and so 3 years without raising prices could mean you fell 20% or more behind competition.
- » **Sign 5:** You added new features without monetizing them. Have you invested in extending your product capabilities, but gave those new features away for free to create goodwill with customers? Do you continually do that? Customers are more open to price increases when you can show a track record of using that extra money to invest in improving the product.

DON'T SHORTCHANGE IMPLEMENTATION

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

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

» **Validate your course of action:** First, confirm whether an across the board price increase is the best strategy. Could you add a new edition instead, or change the pricing metric to one with more upside?

» **Communicate why you're raising prices:** Talk about how you have not raised prices for a while, how since the last price increase you've invested in new features and services or what you plan to invest in going forward. If possible, add metrics that point to the impact of what you've invested in – for instance, the amount of time spent on the platform, the % uptime you've delivered or how quickly you've been able to respond to help desk requests.

» **Use the pricing change as a marketing tactic:** By pre-announcing a price increase, you can create urgency with customers and prospects about why they should lock-in their rates now before their old prices expire.

» **Give customers a choice:** Nobody wants to feel strong-armed in a negotiation, and too hardline of an approach is likely to upset your customer base. A better approach is to provide a bounded set of options for customers to choose from. For instance, they could stay at their current plan at a higher rate, or choose to downgrade plans and keep the rate they're paying today, or if they commit within 30 days they could get 10% off a better plan than they have now. This takes some of the sting off and puts the customer in the driver's seat.

» **Have a plan for existing loyal customers:** Depending on the size of the price increase, it could be difficult to swallow for long-time customers who signed up at a steep discount to the current rate. The first thing to consider is whether grandfathering makes sense. If you are rapidly scaling and doubling your customer base year-on-year, the revenue opportunity from migrating existing customers may not be worth the effort. If you decide that it is, you should still proactively identify customers who will see especially steep increases and have an account-by-account plan to retain them. Typically if they'll see a price increase beyond 50%, a best practice is to stair-step them so they gradually move up to the new rates rather than swallowing it all at once.

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

CLOSING

By now you've learned about publishing pricing online, how to redesign your packaging, introduce a self-service package and when and how to raise your prices. Are you ready for the next step? In our upcoming SaaS Pricing Guide for Growth Stage Companies, you'll learn new techniques for segmenting and differentiating pricing across your customer base. You'll also discover a framework for successfully building and monetizing new products. Plus, you'll learn how to leverage advanced behavioral tactics to get customers to buy more. Stay tuned!

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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.