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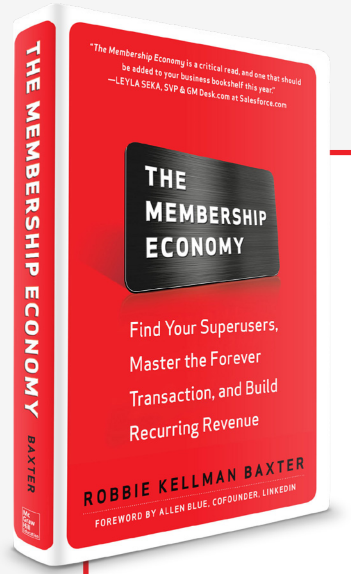
Master B2B SaaS Pricing

Five Advanced Strategies for Subscription Models

By Robbie Kellman Baxter



The Membership Economy

shows how nimble companies that focus on ongoing, formal relationships over one-time transactions are thriving. By renting, lending, or offering access instead of just "ownership," organizations can leapfrog industry leaders. In terms of strategic business models, this is one that allows for breakthrough growth. With great case studies from American Express, LinkedIn, CrossFit, Salesforce.com, SurveyMonkey, and more, this book will show you how to radically rethink how your organization can build loyalty, viral growth, and recurring revenue.

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What's inside?

About the Author

Robbie Kellman Baxter brings over twenty years of strategy consulting and marketing expertise to Peninsula Strategies, a consulting firm focused on helping companies leverage subscription pricing, digital community and freemium to build deeper relationships with customers. Her clients have included start-ups and mid-sized venture-backed companies as well as industry leaders such as ASICS, Netflix, Electronic Arts, and The Wall Street Journal. Peninsula Strategies has advised nearly 100 organizations in over 20 industries on growth strategy.

A sought-after writer and keynote speaker, Robbie has presented at top universities, associations and corporations, as well as to corporate boards and leadership teams around the world. Robbie has created and starred in 10 video courses in collaboration with LinkedIn Learning on business topics ranging from innovation to customer success and membership.

As the author of The Membership Economy: Find Your Superusers, Master the Forever Transaction & Build Recurring Revenue, a book that has been named a top 5 Marketing Book of the Year by Inc.com, Robbie coined the popular business term "Membership Economy". Robbie's expertise with companies in the emerging Membership Economy extends to include SaaS, media, consumer products and community organizations.

Prior to launching Peninsula Strategies, Robbie was a strategy consultant at Booz-Allen, a New York City Urban Fellow and a Silicon Valley product marketer. Robbie received her MBA from the Stanford Graduate School of Business and graduated with honors from Harvard College.

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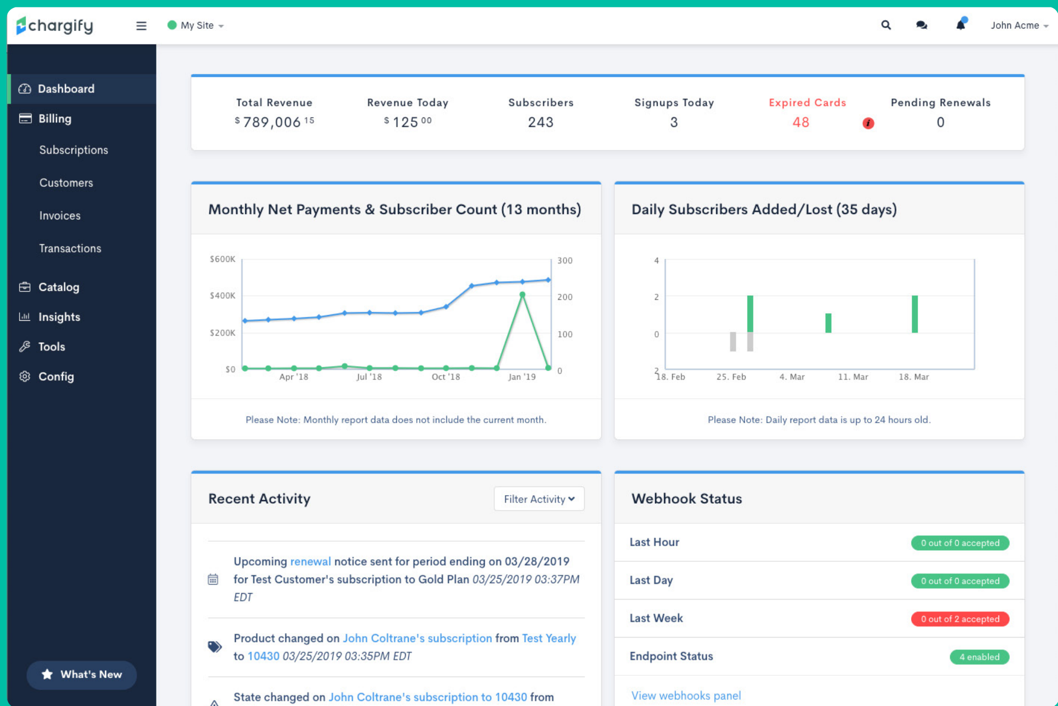

Understand the health of your subscription business with Chargify's management-friendly reporting backed by analyst-friendly data points.

The strategies suggested in this eBook assume that you already have a pricing model in place that has been working and that you already have customers, and the company is growing. However, maybe those customers are demanding customization of pricing, or services that go beyond your pricing sheet. It is also presumed that you already implemented metrics. If this is you, then read on to learn some advanced strategies that can help you optimize your pricing for growth and engagement for the long-term.

Moving Beyond SaaS Metrics 101

If you have been running a SaaS business for any time at all, you probably have developed a robust dashboard and have metrics to help you manage how you attract customers, by tracking things like:

- What it costs to get a customer--Customer Acquisition Cost (CAC)
- What that customer is worth--Lifetime Customer Value (LCV)
- Predicted revenue against the acquisition, or at least you're trying to--Expected LCV
- How flexible you can be in attracting new customers--LCV/CAC Ratio
- Your marketing/sales teams work in concert, collectively measuring and using freemium, trials and cohort analysis to determine how well the marketing investment is working to identify, close and keep (all three!) the right kind of customers.
- Customer Success is a well-oiled machine. You also know how to engage and keep those customers that you have, and how to deepen and broaden the relationships (and the spend) you have with them. You know how to use the Net Promoter System (NPS) and track both NPS scores and qualitative data on customer sentiment.
- You have a team managing retention and churn, and probably have a drip campaign in the weeks leading up to renewals.
- Investors have possibly asked for metrics to help them better value the company—Average Revenue Per User (ARPU) or Account (ARPA) and Annual Recurring Revenue (ARR)/Monthly Recurring Revenue (MRR) are well measured.

Although you have lots of attractive indicators—customer coming in the front door, customers using your products, and your customer success team systematiulletcally expanding your business—you are frustrated that the model isn't working correctly. You want to provide a personalized pricing experience for your customers, but at the same time, you want to be sure that it leads to a scalable business model from which you can learn and evolve.

If you are ready to dig in and strengthen your pricing model to scale and thrive, keep reading.

Strategy 1:
Keep control of diagnosis and prescription as you grow.

When you're working with prospects and customers, it can be helpful to assume the role of a physician. Let's imagine you went into a heart surgeon and said "I'm having trouble breathing. It's a heart attack. Quick! Give me a triple bypass so I can successfully run that marathon next month," the surgeon would either kick you out of the office, laugh, or both.

That's because the patient should not do the diagnosis (It's a heart attack) or the prescription (give me a triple bypass). The only thing the patient is qualified to do is to tell you the symptoms (I'm having trouble breathing) and the desired outcome (run the marathon). To be honest as a physician, you may have to give them feedback that their desired result might not be possible. If you are thinking that this scenario is unreasonable, or that no one is going to buy from someone who's that honest and that directive, let me say that what I'm proposing here is "solution selling" which experts have been teaching for years.

You're not selling widgets or over the counter medicine. You are selling a solution to the customer's ongoing problem. Over time, you will continue to add and evolve that solution to meet the customer's changing needs and to take advantage of the best resources in a changing environment and ecosystem. Even if the customer thinks they only need one feature, if you know they need multiple features to get the results they want, you must tell them.

Strategy 2:
Incorporate "free" strategically

If you offer free anything, you need to know why you are doing it, and have a quantifiable rationale. It might be for marketing, or it might be for sales, or it might even be for testing and learnings (marketing again, but also product/operations). Still, make sure you are getting results. Giving something away for free, even if there's no "variable cost," is a real expense.

If you aren't strategic and you are giving things away, you might be teaching the market that there are deals to be had. You might be lowering the market's perception of the value of your offering. Alternatively, you might find yourself in the situation of many "freemium" models where the free version is "good enough" for most customers who actually would have been willing to pay, but didn't have to.

Another problem with free experiences is that many companies take away service when they offer free. Consequently, you have product sandboxes or freemium subscriptions to "lite" products without the on-boarding and support that is needed for your offering to shine. As a result, you might lose subscribers who would have been great customers.

Whether you offer "free trials" or a freemium model (which means some subscribers get free value forever while others pay a premium for more features, service or volume) or even if you offer your full subscription for free to influencers and leaders in your market, you need to be strategic. A free trial is a taste of something delicious. You use a free trial when your prospect either doesn't understand what your product tastes like, or if your customer doesn't believe what you're promising and needs to experience the wow for themselves. You don't want to skimp on a free trial, because you want them to be left hungry for more.

On the other hand, let's say your customer understands what your product tastes like, but they aren't sure they'll use it enough to justify subscribing. You won't get their business through a free trial. Offering a free trial to these people is likely to be a waste of money and resources. What this customer needs is a freemium option. Freemium is access to a limited set of features forever, for free. To be a true freemium offer, it needs to be both of those things: Free and Forever.

The job of this freemium option is to change the customer's behavior to get them very engaged with your software that they realize they're better off paying for the premium version. This is where you might offer a stripped down version without support. Alternatively, you might limit the volume of usage—Number of users, sessions, and amount of storage.

For instance, SurveyMonkey's freemium offer, which they call "Basic" gives you unlimited surveys of 10 questions or less and no personalized support. Their Standard Prograam offers unlimited questions, but limited responses, and Customer Support via email. Someone could get great value from the freemium option forever—for example, if all they use it for is a quick customer satisfaction survey. However, you can also see how an active market researcher might quickly crave longer surveys, and want to talk with someone about maximizing product features.

In a B2B business, often price is not the most significant hurdle—changing behavior and adopting the new product is. By letting the surveyor "play with" the freemium option, SurveyMonkey can demonstrate what the app can do and to slowly make the app a "habit" and part of how that person does his or her job.

Freemium models can do a couple of other things for your business model. Even if someone using the SurveyMonkey freemium offering never upgrades to the premium version, someone who receives a survey from that person might become a paid subscriber. In other words, Freemium can drive organic viral growth. This is especially important if your product connects your target buyers—billing software sent to people who also have billing needs, for example. Various businesses such as those that are marketplaces or communities use freemium to build the members because the members attract the paying subscribers, as well as products targeting software developers, for example, need to have a large community of software developers familiar with their product, even if their company isn't standardized on it.

One last thing about giving stuff away for free. Many companies give away subscriptions to influencers. Sometimes these are well-known people in the professional community who blog or create lots of industry insider content. Moreover, sometimes these are workers inside well-known or large companies. While there are times to give away subscriptions, it's important to understand why you're doing it, especially in B2B, where money is rarely the hurdle preventing purchase.

Remember, sometimes you drive higher usage by charging for the product instead of giving it away. Try to resist the short term desire to add another name to your logo page, by focusing on long-term engagement and growth.

For those of you who haven't experimented with "free" as part of your business model, I encourage you to do it. It's an easy exercise to test. Start by making a list of all the ways you might use free—free trial, freemium, free for influencers. How could you structure these offerings? Whom would they target? What behavior would they drive? Share your list with the most creative and experienced strategists in your organization—maybe even get it on the leadership team's next meeting for a 15-minute brainstorm. It's useful to have leadership involved in this way because they are often the people throwing out ideas about strategic use of free at the most inopportune times. Once you have a good list, consider the cost and benefit of each. Are they lead generation strategies or awareness strategies? What problem are they solving and for whom? From there, if you have any promising options, map out a small test (ping me, and I'll try to help). Also if you don't have any promising options, that's good too, because now you can quickly shut down any well-intentioned but distracting suggestions.

Strategy 3:

Price for use cases, not one-off requests

One-price-fits-all offers to leave money on the table. Chargify's Price Points™ provide the flexibility to customize pricing and test price elasticity without impacting existing offers or legacy customers. You can:

1. One-price-fits-all offers to leave money on the table. Chargify's Price Points™ provide the flexibility to customize pricing and test price elasticity without impacting existing offers or legacy customers. You can:
2. Custom Pricing: Get one-to-one with potential and current customers with personalized pricing.
3. Price Experiments: Find the optimal combination of packaging and price by spinning up tests in hours, not weeks or months.
4. Segmented Pricing: Set differentiated pricing for different customer segments based on value.
5. Price Changes: Effortlessly manage large-scale price changes and migrations with product versioning.

The options are truly limitless. Learn more about how Chargify can help you deliver the right offer, to the right customer, at the right time.

Subscription Billing platforms, such as Chargify, are a great tool to have because it removes feasibility as a limiting factor in creative and responsive pricing. Plus there are all kinds of good reasons to have customized pricing. For example, you might have third-party obligations—partners or resellers who get a share of revenue or blanket pricing discounts, each with slightly different but structured pricing. Maybe you have to adhere to different legal constraints or pricing norms of different regions and countries. You could also be bidding for government contracts with their own, sometimes arbitrary, requirements for you to take or leave.

Flexibility can be so valuable, and there are so many times that you will be grateful to be able to design digital processes via your platform that reflect your complex business environments. However, that doesn't mean you have to use all the features all the time. Your pricing features have to follow your pricing logic.

I have a client in the font business, Monotype: this company makes it easy for professional designers to access thousands of fonts. Literally. Most professional designers pay (or their companies pay) to have access to this broad resource, but it doesn't mean the designers use every font for every project. In fact, they may never use many of the fonts. They use discretion, often just one or two fonts at a time, and make sure that those complement one another while focusing on the primary objective which is communication. The same should be true of how you use your pricing.

Flexibility can be a tool to help you address the demands of organizational complexity over time at the macro level as well as the ability to manage the demands of evolving customer needs on the micro level. However, it would be best if you still were disciplined enough with your pricing to make sure that it always supports your long-term business model. If you are motivated to add more flexibility in your pricing, make sure you have a good reason. Also, remember that "making my quarterly quota" is not a good reason! It comes down to discipline and long-term focus.

Here are some excellent reasons to add to your pricing options:

1. You have evaluated your sales and onboarding process and realized that there was a step missing. So you needed to create a pricing option for that step.
2. You have multiple discrete functions in your product, and many of those functions are irrelevant or confusing to certain customer segments. You don't want to force your customers to buy more than they truly need.
3. Something's not working quite right in your current pricing, and you want to experiment.
4. You want to offer a free trial.
5. You are working with very large and very small customers, and your pricing isn't flexible enough to reflect the massive difference in value created.

One great reason to add to your pricing options is to make a SaaS model available in the first place. If you're moving from a perpetual model to a subscription, you'll need to offer both. You'll also probably want to experiment with different pricing as your SaaS model becomes more robust. However, be careful. You want to be sure that you aren't expecting your customers and prospects to diagnose their own needs and then write the prescription. You must understand how customers can get the greatest value from your products and services. Once you know what those are, you are morally obligated (in my opinion) to price in a way that is in that space where your best interest and their best interest are maximized.

A good approach is to price for use cases. For example, many companies need to reconsider how they bundle (or unbundle) ongoing services with single-use add-ons. Start by identifying a customer with an unmet need. Then determine if there is a whole group of people with similar issues. If it's just one customer, you don't want to create a new pricing model. I know that there's a lot of interest in mass customization of pricing, but the risk of that is that it makes it hard to improve the product.

Sometimes what looks like a diversity of usage all comes out in the wash. For example, if you are concerned that some customers use your services more heavily than others, determine whether the lightest users are still getting good value from the current pricing before you lower that pricing. At the buffet, the hungry football player pays the same as the slender gymnast despite the weight difference. Also, often some items are way more expensive than others (think oysters vs. the pasta). It's important to understand how everyone is using the offering—it might all work out. However, you want to track engagement before jumping to conclusions about pricing.

If every customer has different pricing and different needs, how do you optimize your roadmap? How do you structure your customer success team? It becomes hard to know where the organization is going if you do no pruning of your customer tree. Pricing is the servant, not the master. Remember, the strategy is in charge.

Strategy 4:
Use engagement data to develop pricing extensions

How do you decide when to add a pricing extension? As we've explained, your customer engagement data is going to be critical in understanding how to price. Most SaaS companies have a "retention" team and a retention communication drip that starts a month or two before renewal. However, that's table stakes. It would be best if you started tracking behavior, and communicating, from the beginning. Understand how customers onboard—I bet some of them decide in the first few days whether and how much they're going to use your offering, regardless of what they've paid. In many cases the people using your software aren't the ones buying it—you probably have to "resell" the product users on the value of your offering, and best practices. Then periodically, you might notice heavier usage than usual, which might trigger you to suggest a higher value option, or lighter usage, which might trigger a less expensive version.

Start with communication of what's available, and acknowledgment of their usage—but you might end up wanting to incorporate a new price point to meet their needs. However, don't wait until renewal time to have these conversations. You should understand the engagement data early on, both to maximize renewal and to gain insights that will help you optimize pricing going forward. By the time you get into your retention phase, your customer has already decided whether or not your product is a habit and a process of how business gets done at their organization. They've probably also already decided if they want to expand the product to other departments and/or to use your other modules.

One of the huge advantages of SaaS architecture is how much you know about how people engage with your product. Understanding how it's used should provide you with much insight regarding pricing, but also product roadmap, communication, and support. Decisions on all of these topics should be integrated and made with the long-term relationship with the customer at the center.

The three types of engagement data you want to use in evaluating forward-looking decisions are:

- **Recency:** when was the last time that they logged in?
- **Frequency:** how frequently do they engage?
- **Depth:** when they log in, how many features do they use and for how long?

Each of these types of engagement data might inform future pricing considerations. If you have an issue with recency, meaning that usage tails off after the early enthusiasm wanes, you might want to charge full price for the first month and offer a free month for the second month if they've successfully onboarded.

If there's an issue with frequency, meaning that users aren't engaging with the product as often as you had expected, there could be two different reasons, with varying implications for pricing. First, they're not using the product in the way it was intended—for example, if your product is optimized for daily use, but it's only being logged into every few days. In that case, you want to keep the pricing the same, but maybe change the onboarding to encourage users to change their behavior. On the other hand, if they're not using the product every day because they don't need it every day, you might create a lighter pricing model for organizations that have a lighter use case.

If the problem is depth, as with frequency, you need to figure out if the lighter usage is due to misuse (i.e., the customer didn't know the features were available but could benefit from using them) or due to lack of need. In the former case, you have a communications issue. In the latter, it might be a pricing problem.

Remember, all departments touch pricing, so check in with them too, to see what they're learning about how the customer is engaging with you. Accounting can raise a flag, for example, if you're just over the "expense" maximum, and your pricing structure requires a more rigorous approval process—that could be a good reason to change pricing. Marketing might have figured out how your pricing structure is preventing a specific group from signing up, and have insight about what could remove friction. So of course, sales will be more than happy to point out all the price-driven reasons that they're not hitting their quota!

Throughout this evaluation, keep the customer front and center. When you're evaluating your pricing, think about how your "best customers" use your product, and how to price to support proper usage and optimal benefits.

Strategy 5:

Make sure your pricing is easy for customers to understand

(the more complex, the less they will trust you)

Keep your pricing as simple as possible, but no simpler. What does this mean? The more they have to become experts on your pricing, the more they're going to look for ways you're not fair. There are indeed reasons to have complex pricing—customers come in all shapes and sizes. Different industries might need different features, or have different budgets. Some companies might have many individuals using the product and need a dashboard to track and manage usage, while others might have a single person working with you. All of these variables drive your costs and also can drive value for your subscribers. If it's complicated for you to manage, make sure that you can explain the pricing in a straightforward, intuitive way. Ideally, you can convey how you price in less than three steps. For example,

Step one: Choose your features (functionality, service, support, customization).

Step 2: Choose your size (how many people, how many sites, how much storage, plus other factors)

Step 3: Determine the duration. (monthly, annually, multi-year)

Now, behind the scenes, blending features and providing the customer with exactly what she wants maybe be very challenging, requiring you to jump through all kinds of legal and accounting hoops and potentially a new billing platform. However, for the customer, it should be straightforward. They should know how the pricing works and why they paid what they did.

Beware of promotions—offering end-of-quarter discounts or new-feature bundles can make you a hero today, but you'll pay for it tomorrow. First, this kind of revenue won't be sustainable—if people are making buying decisions on price, they may not stay with you for the right reasons. Second, you're educating your customers to wait for the sales. Third, your company will quickly become addicted to sales, which will put you on a hamster wheel of more promotions, and will make you pay less attention to the subscribers you already have.

Conclusion

When you're just starting with pricing, it's enough to get customers to sign up. After all, your fixed costs are mostly behind you. Also, you're eager to demonstrate that you have referenceable customers. However, as you grow, it's critical that you dig into the details about how your subscribers use your product, what holds the prospects back from buying, and how to maximize lifetime customer value (LCV).

Taking time to build a thoughtful and relevant pricing structure for your SaaS business will result in a predictable revenue stream and long-term relationships with the right kind of customers.