The Ultimate Guide To B2B SaaS Pricing

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Chapter 1
Getting Started

In April of 2017 subscription websites received around 37 million visitors, an increase of more than 800% in 3 years, and the growth continues unabated.

This unprecedented growth is the motivation behind the ongoing explosion in the adoption of Software-as-a-Service business models by numerous companies because stable recurring revenue, less time to get to market and a deeper understanding of customer needs are powerful incentives to join the growing subscription economy.

Naturally, every opportunity comes with its own set of challenges and, in the case of the subscription model, a significant challenge lies in finding the right recurring price. It's a complicated process and a key success driver as it has a significant impact on churn, MRR, LTV and, ultimately, survival.

1%

Improvement In Price Optimization

=

11.1%

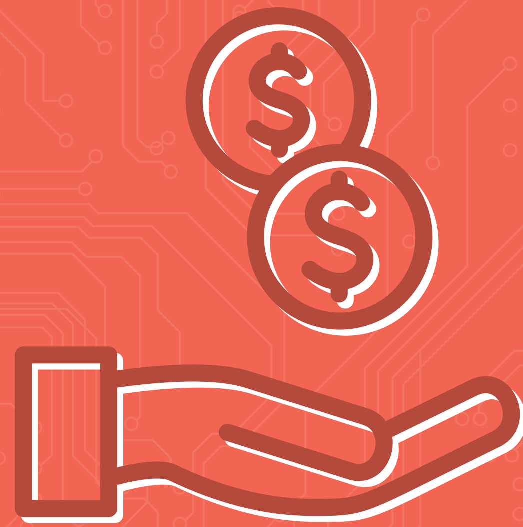
Average Boost In Operating Profits

A Different Approach

From the outset, pricing a subscription product needs to account for the subscription model being a different way of doing business compared to traditional one-time software sales.

Whereas one-time sales are based on developing and selling a product, often with little or no follow-up, subscriptions are about developing positive relationships with customers and providing seamless ongoing value. In the B2B world - which is driven by trust relationships - the SaaS model is a natural fit.

Unlike one-time sale products, where all marginal costs are covered in one upfront price, subscriptions mortgage the recovery of costs over time, frequently onboarding new users for free. As a result, long-term growth and profitability rely on effectively building, maintaining and monetizing customer relationships.



With costs frontloaded, most subscription companies don't break even in their customers' lifecycles for at least 12-24 months, a stark reminder of the importance of pricing correctly to acquire new users and keep them subscribed.

As with any other product or service, successfully pricing a B2B SaaS offering to maximize revenue is often a delicate balance between how much the offering costs you to produce, it's real relative market value, and how much customers are willing to pay for it.

This perception of value can vary dramatically between different users, and part of the difficulty lies in figuring out which price point is going to unlock the most revenue.

- Overpricing dissuades too many from buying.
- Underpricing results in lost revenue as most users would have paid more.

To find the right price for your subscription, your first step is to understand your market. Extensive consumer and market research is a required and provides you with the insights and information you need to set your initial price with some measure of confidence.

Thereafter, testing and refinement of your price should be baked into your ongoing strategy.

For SaaS companies in particular, never just set a price and forget it!

The most successful subscription companies re-examine the effectiveness of their pricing every 6 to 9 months.

Basic Saas Pricing Models

Once you have an understanding of how much prospective users would pay for your service, you need to determine the basis of your recurring fees.

The most common models have fees based on usage volume and/or seats and/or features.

In the subscription world, one price doesn't fit all. To reach the most customers possible, successful subscription companies offer different pricing tiers aimed at different user segments based on feature sets. The lowest tier is naturally the most basic while the highest includes every possible feature and add-on.

As you determine which of your product features are most highly valued by your users, you can bundle those in a higher tier to incentivize users to upgrade.

Consumption-Based Pricing

The most common way to price SaaS products. It involves charging customers based on usage (storage, minutes, bandwith, data etc.) DropBox, for example, charges based on the amount of storage used.

Two ways to implement this method include:

- "Pay-as-you-go"
- A set "amount" of service for a given time frame with excess use charges. This model tends to yield more revenue for merchants.

Per User Pricing

The second most common pricing structure used by subscription companies, it is often the default strategy due to its predictable revenue streams and straightforward deployment. In this model prices correlate to licenses sold, or the number of individual users who access the service.

Monitor Your Metrics and Adjust

The value your customers are willing to pay *indefinitely* will depend on their experiences with every aspect of your service including your interface, billing and customer service.

To build and retain a solid base, you need to consistently ensure they firmly believe that they are getting great value for the recurring price they are paying.

While there is no universally right way to price, digital subscription companies are fortunate to have access to a wealth of information derived from customer consumption patterns and interactions with their services.

By tracking usage patterns and communicating with your users, you can determine what features they find most valuable and use that information to determine the optimal price points at which to sell different bundles of key features.

Subscriptions Are Here To Stay

The popularity of SaaS models is clear and should continue to grow. However, even with unparalleled innovation, product development and a phenomenal marketing team, an ill-conceived pricing strategy could curtail your growth.

It is critical in this agile subscription environment that companies continuously test and adjust their pricing to ensure their model aligns with both their own value proposition and their customers' value perception.

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Chapter 2
Is The Price Right?

Finding the right price for a product or service is a challenge for every business.

An analysis by Michael Marn and Robert Rosiello demonstrated that just a 1% improvement in price optimization resulted in an average boost in operating profits of 11.1%. Finding the optimal price for your service is vital to successfully tap into the increasingly lucrative software-as-a-service landscape.

While the best way to test your price is with real customers, there are ways you can get close to your optimal price before you go to market or, if you're already in the market, without interfering with your real world offers.

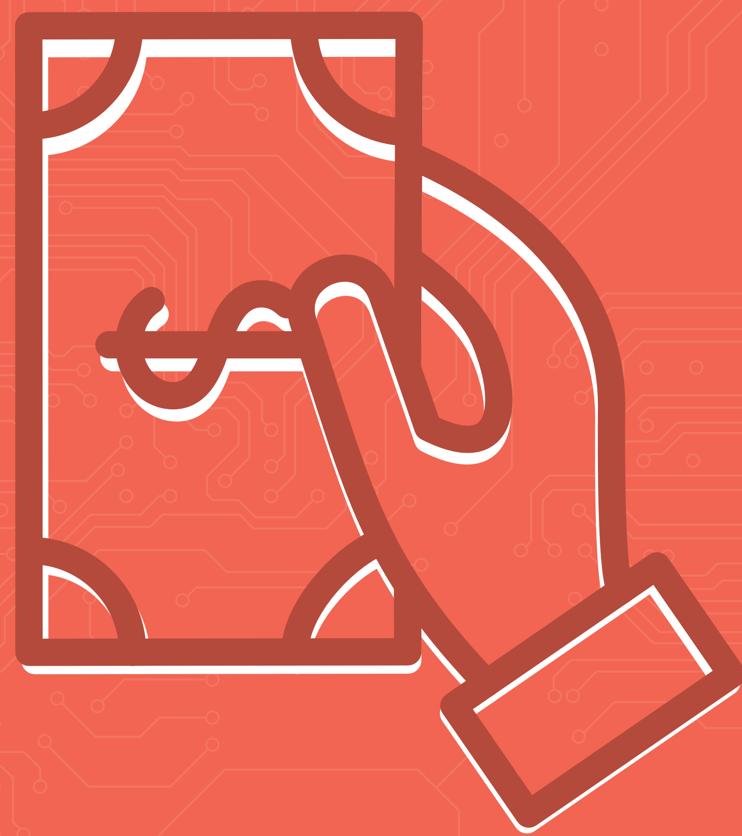
A 1% improvement in price optimization resulted in an average boost of 11.1% in operating profits.

Finding Your Perceived Value

Simply pegging your prices slightly above or below your competitors is not the best way to go-to-market. To determine an optimal price, you need to know how much value your target audience believes your product provides.

As previously mentioned, the amount customers are willing to pay can vary significantly from person to person. Nonetheless, there are several approaches you can use to figure out how to best price your product for your target market.

Thorough research should result in the development of user personas that are representative of those you have identified as belonging to your key market segments. Once these personas are formalized, you can begin to understand the value they place on your product through surveys and focus groups.



The higher the value perception, the greater the willingness to pay.

Price Perception

Because users frequently low-ball how much they are willing to spend, several techniques have been developed in an attempt to overcome some of this bias. The four most popular are addressed in detail on the following pages and are outlined below.

While each of these research methodologies have different strengths and weaknesses, they all provide insights on consumer perceptions with respect to the value your product provides, and which price is most likely to unlock the greatest revenue.

Regardless of the price chosen, once launched it should be tested rigorously.

1. MONADIC PRICING

This is a commonly used price research technique and considered to be one of the least biased and most defensible ways to measure price.

2. PRICE LADDERING

This method asks potential customers to rate how likely they would be to buy a service at any one of several price points, usually on a scale of 1 to 10.

3. PRICE SENSITIVITY METER

This method uses open-ended questions about price and quality with the inherent assumption that price is a reflection of quality.

4. CHOICE-BASED CONJOINT ANALYSIS

Considered one of the most accurate methods for determining an optimal price, this method is ideal for more complex products with multiple features.

1. Monadic Price Testing

Monadic price testing involves giving samples of potential customers a full product description, including a specified price for their sample, then asking them if they would buy the product at that price.

Each sample is shown a different price and respondents are unaware that price is the object of the test. They are simply asked to choose on a five-point scale ranging from ‘definitely would not purchase’ to ‘definitely would purchase’ based on the product description description including the price. For example, "Would you be willing to buy for $6/mo?"

The method is monadic due to the fact that each respondent is exposed to only one price scenario in the study. The overall research study however will examine several different price points across a number of different sample groups.

The optimal price point is where the number of respondents in a sample who are likely to purchase equals the number who are unlikely to do so.

Strengths

Eliminates bias towards price testing.

Is helpful in developing forecasting models and for testing different price points or structures.

Weaknesses

The sample size required is very large due to required sub-samples for individual prices points.

It is necessary to minimize demographic & behavioral differences between samples.

2. Price Laddering

Price laddering starts with a monadic design approach, and then diverges.

If respondents in a sample indicate a lower than desired purchase intent, that same sample is then asked to reconsider their likelihood to purchase at successively lower prices. Although, in theory, this can continue through unlimited iterations, it is usually limited to no more than three price points in practice, with the highest price point being presented first.

Some tests against monadic designs have provided evidence that a reference price effect takes place in laddering exercises, and that sequential price points are rated more "likely" in the laddering test, yielding elevated purchased interest estimates.

In many side-by-side cases, the results are not so far off as to be discredited, rather suggesting a need for extra correction in an effort to pinpoint the take rate and thus the market potential

CORRECTION 1.

Ask about intent to purchase to devalue respondents with low or no intent.

CORRECTION 2.

Adjust down for increased engagement/interest likely attributable to longer involvement.

Price laddering results are used to estimate how much of the market would purchase at each price tested.

3. Van Westendorp's Price Sensitivity Meter

This method tries to determine a price range based on consumers' perceived value of a product according to their responses to questions seen on the right.

Output from the questions generates a demand curve that is intended to calculate the optimum price and to help identify the price sensitivity of demand and the price at which demand begins to fall.

Strengths

- Simplicity of execution.
- Open questions yield more detailed answers.
- Useful for innovative products where a "reasonable" price is genuinely not known.

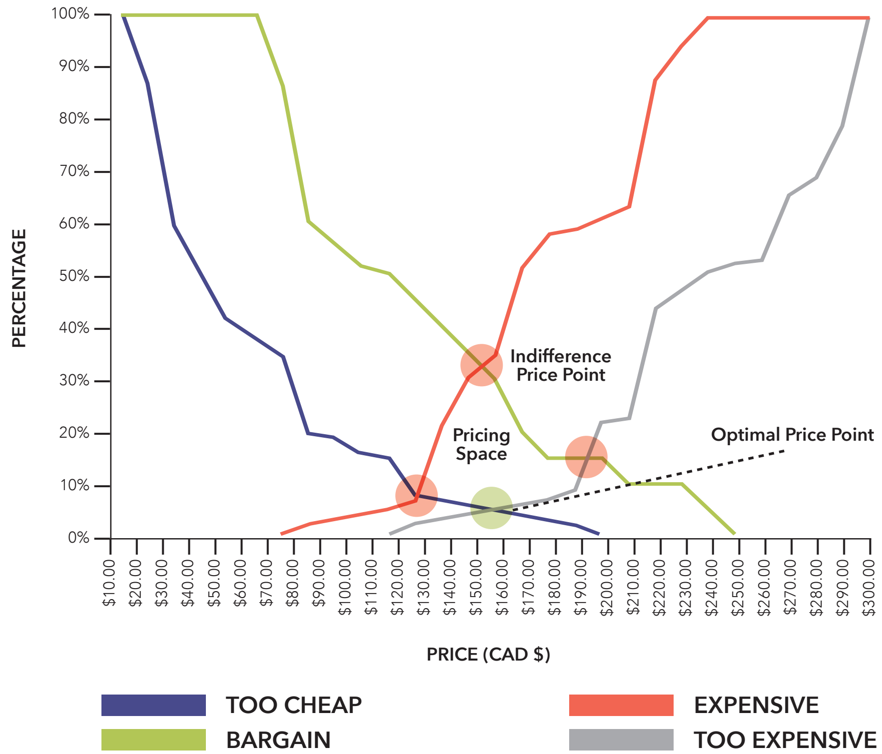
Weakness

- Answers are typically more biased and prices lower than other methods.

Price Sensitivity Meter Questions

1. At what price would you begin to think the product is too expensive to consider? (Too expensive)
2. At what price would you begin to think the product is so inexpensive that you would question the quality and not consider it? (Too cheap)
3. At what price would you begin to think the product is getting expensive, but you might still consider it? (Expensive/High Side)
4. At what price would you think the product is a bargain – a great buy for the money? (Cheap/Good Value)

Price Sensitivity Analysis



The price range is determined at the low end by the intersection of the “too cheap” and “expensive” curves and at the high end by the intersection of the “bargain” and “too expensive” curves. From within that pricing space, a price point that may be most effective for a business can be determined.

The optimal price is usually considered the point at which the number of respondents considering the product too cheap is equal to the number that say it’s too expensive.

While this methodology is relatively simple and cost effective, as a standalone technique the results are frequently ineffective and can differ significantly from the optimal price. Further testing should be done using other research methods to validate results prior to implementation.

4. Choice-Based Conjoint Analysis

This is the most widely used multivariate research technique for establishing price levels and feature sets for both new and mature products.

This method exposes respondents to multiple product options with information on features and prices and asks them to rate which option or package they would be most likely to purchase.

Respondents can make trade-offs and compare value between different products, effectively mimicking the dilemmas and trade-offs faced in the real world. This provides insights on the real or perceived value of different features which is especially important in value-based and multi-tiered pricing.

Strengths

- Provides strategic direction for marketing and can help in developing forecasting models
- Allows for choice
- Price is presented as one of many variables minimizing price bias.
- Can be used for both new and established products

Weakness

A lot of variables can reduce the relative importance of price in an actual real-world buying situation

Conjoint analysis is seen as one of the most accurate methods for determining an optimal price.

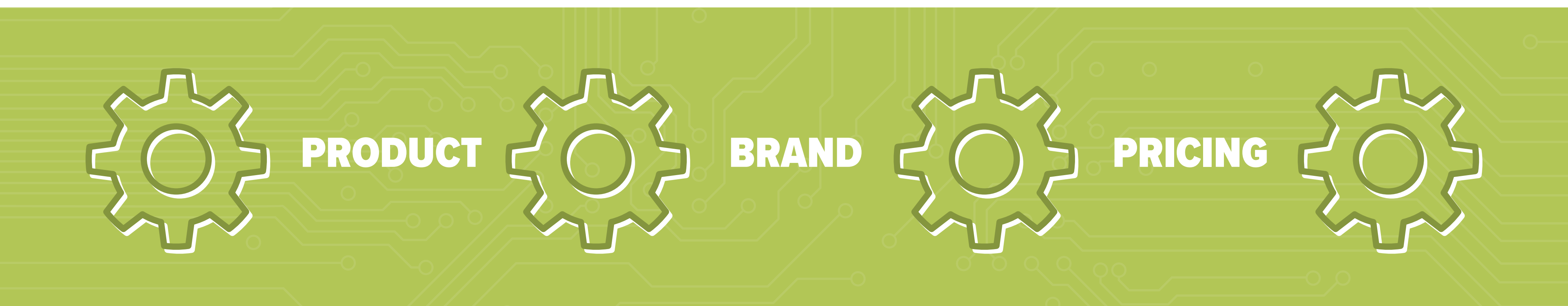
Aligning Your Price With Your Overall Business Strategy

Your pricing strategy needs to align with your company's longer-term plan for the business.

You could be pricing as a least-cost provider with a more streamlined product that has fewer features than your competitors, allowing you to potentially attract more customers overall, including the more price sensitive.

Alternatively you could pricing to position or build a premium service at a higher price with a more limited base. These customers are likely to be more invested and committed to sticking with a high value, high-priced product and, as a result, they tend to stay subscribed for longer, significantly increasing customer lifetime value.

Whichever pricing path you choose initially, you have to be prepared to stick with it in the short term. Attempting to radically adjust your price from what you offered initially may be inconsistent with your customers' established value perception of your product, which can result in increased churn and lower revenue.



Capture More Revenue With Tiered Pricing

Customers value your product differently, therefore offering different tiers allows you to better capture more segments.

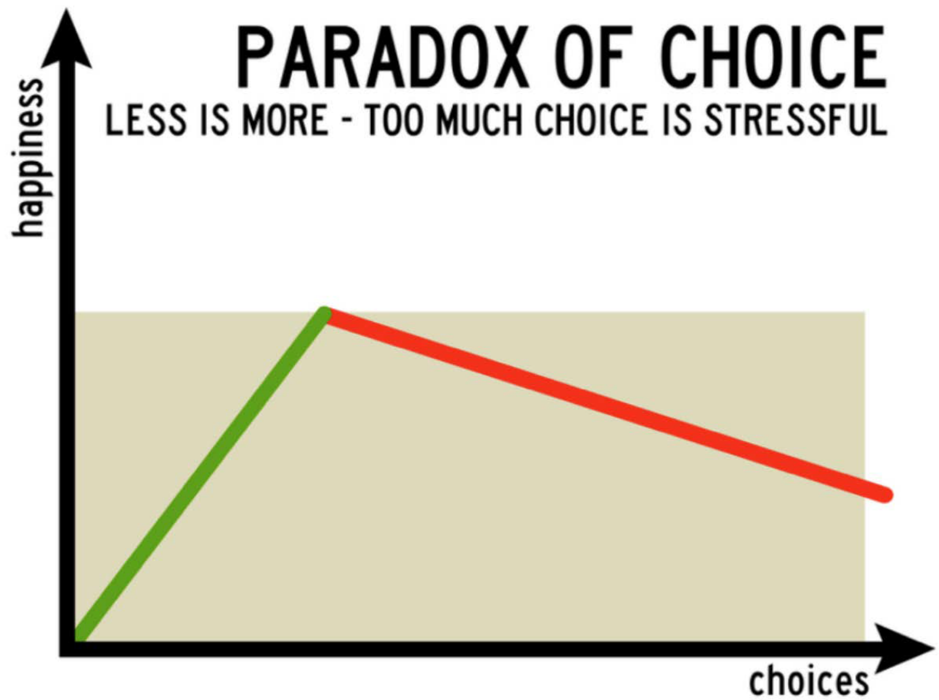
Tiered pricing strategies allow businesses to appeal to a wider base of potential customers and make it easier to communicate the value of specific features and functionality. Salesforce and Concur effectively use this strategy .

Once you've set your initial tiers, you can fine tune your pricing assumptions, test, elicit feedback and, if it is warranted, change your prices.

For B2B SaaS businesses, each tier should play a specific role in your pricing strategy.

- The top tier should be high. It should be positioned to establish a reference value.
- The middle tier (generally) generates the most revenue. Some businesses highlight this tier as "the most popular."
- Entry tier pricing depends on its objective and is a little more complicated, for example:
  - Is it intended to lure people with minimum functionality to prompt a frustration driven upgrade?
  - Is it intended to capture the bottom part of your market while optimizing pricing for the middle tier?

With respect to tiered pricing, various tests have shown that businesses presenting three alternative prices for variations of their products on a page (think bronze, silver, platinum options), have found different positioning helps sell more of the product they actually want to sell.



We know that the paradox of choice means that people make more efficient decisions resulting in higher levels of satisfaction when presented with fewer choices. Despite our desire to want to know all the options, we actually struggle to make decisions when presented with too many. To minimize the dilemma of choice, only offer between 3 and 7 options (5 +/- 2) favoring the lower end for B2B and more complex purchasing decisions.

- **Some tests show that positioning the cheaper option first followed by the mid-tier and then the most expensive results in the middle options (frequently the target offer) to sell more effectively.**
- **Some ecommerce businesses have found that leading with the most expensive product has the same result (price priming in action).**
- **Some, like Netflix, have found that when showing significantly more value provided by the mostexpensive option - relatively speaking - they get more premium subscribers.**

Listen To Your Customers

A survey of 1,000 SaaS companies conducted by OpenView, found that 50% of companies procrastinate when it comes to pricing decisions.

The survey showed that:

- The majority of companies consider pricing either right before or as their product is getting ready for launch, rather than towards the beginning of the development process.
- Often times pricing decisions are made with little or no data.
- At most early stage companies pricing isn't a part of anyone's job description, and gets left to a CEO who's already constrained for time.
- More than 40% of seed stage companies said they had never tested pricing, and had never talked to potential customers to get feedback on price.

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Here is a SaaS Price Testing Success Story using Van Westendorp's Price Sensitivity Meter.

Chapter 3 Monitoring and Adjusting Your Price

Pricing is one of the most powerful profit levers you can control. To fully harness the power of pricing you need to consider evolving customer preferences, market conditions and competitor intelligence.

Regardless of effort, the starting price for your product is still only an estimate until tested with real-world customers. This requires regular monitoring of your key performance indicators at certain price points and a nimbleness and willingness to adjust.

You need to start by understanding your product's price sensitivity — the percentage of sales you lose or gain at any particular price point. This helps you conduct reasonable, relevant, impactful tests.

Through price sensitivity testing, value moves from an ambiguous term to a specific metric that you can optimize

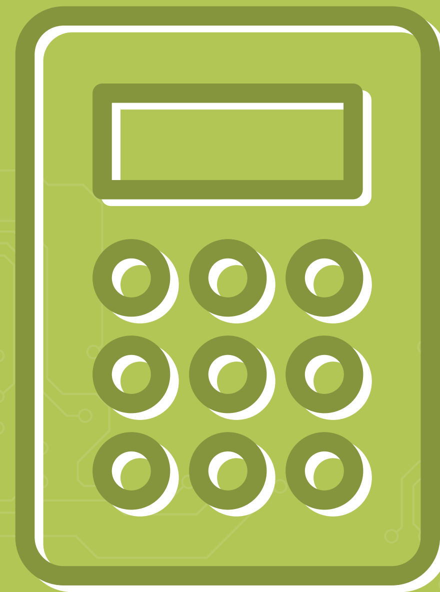
A/B Testing

Businesses that implement A/B tests use statistically siginificant data to make pricing decisions.

Simply use a testing tool to run your A/B tests to split your traffic randomly so that some of your visitors see your original price point (the control price) and some see a test price (the variation).

- Immediate customer behavior provides insights as to which price drives higher customer acquisition.
- Ongoing cohort analysis provides insights into which price resulted in a higher churn rate and/or greater MRR and LTV.

Web-based companies can easily conduct A/B tests to gauge buyer behavior under different pricing conditions using any one of a host of split testing tools including Google Analytics Content Experiments, Optimizely, Visual Website Optimizer, Unbounce and Kissmetrics.



Pricing is a process that must be continually tested and re-evaluated to determine the proper mix of packages and prices that appeal to your customers.

KPIs and Metrics

Key performance indicators are perhaps your most important tool for understanding how your prices are being received by customers based on their behavior.

Here are a few KPIs that provide insights into how your pricing strategy and tests are performing:

1. Monthly Recurring Revenue (MRR)

Customers don't pay upfront for subscriptions, meaning you collect monthly revenue in small increments. Eventually this leads to a steady monthly cash flow and predictable revenue. However, in the beginning, building a sustainable business means that you need to track your MRR; the amount of recurring revenue you are adding (or losing) each month. This is a benchmark number for subscription growth.

2.Churn

How many of your customers keep coming back? Your churn rate measures the percentage of customers who leave every month.

If you have a high churn rate, it could mean your price fails to mirror your customer's value perception. If they don't see the value in your product they will leave, negatively impacting other KPIs including monthly recurring revenue and life time value.

- For SaaS businesses, an **acceptable annual churn** falls within the 5-7% range.
- In monthly terms that translates into an **acceptable loss** of around 1 out of every 200 customers per month.

Top 5 key performance indicators for SaaS and Subscription businesses:

MRR CHURN CPA ARPC LTV

3. Cost Per Acquisition (CPA)

CPA simply refers to how much it costs you to acquire a new subscriber. For SaaS businesses marketing can get expensive. It is front-loaded and poor execution or channel selection can quickly erode if not destroy any profit margins.

CPA is easy to calculate, just add up all of your expenses for marketing and sales last month, then divide by the number of customers you acquired in the same period. This average cost to acquire gives you a quick check on the health of your business. Deeper investigation involves digging into the CPA of each marketing campaign and channel to optimize your spend and get rid of poor/negative performers.

If you're spending more money to acquire certain customers than you receive from them over a certain time period, there is a problem that may indicate that your price needs to be adjusted in favor of promoting MRR and /or LTV vs pure acquisition.

SaaS Stats

- The median cost for a SaaS company to acquire a dollar of new customer revenue is **$1.18**
- It's **9x** cheaper to retain existing customers than acquire new customers: costing **$0.13** to acquire any additional dollar of revenue.
- The median startup spends **92%** of first year revenue on customer acquisition, taking **11-months** to payback their Customer Acquisition Cost.
- It's **4x cheaper** to upsell existing customers than acquire new customers: costing just **$0.28** to acquire an additional dollar of revenue.

4. Average Revenue Per Customer (ARPC)

Once you have your CPA and churn rates under control, organic revenue growth is critical.

The goal is to steadily increase customer revenue, and ARPC tells you whether or not you are succeeding. The key to increasing ARPC is through upsells and cross-sells.

- An upsell moves the customer to a more expensive / premium version of your product.
- A cross-sell could refer to extra features you sell with your products, or the sale of another merchant's complementary product. For example, an anti-virus company may include an offer from an ID protection merchant in their cart as a cross-sell for a share of the revenue.

5. Customer Lifetime Value (LTV or CLV)

Analysis of both ARPC and the churn rate provides clarity on predictable future revenue numbers. The following helps to clarify the difference between ARPC and LTV:

- ARPC = revenue you've already received
- LTV = total per customer revenue forecast

To calculate LTV, take your average subscription length and multiply it by your average monthly revenue per customer. Then factor in support and acquisition costs to see if each customer is profitable in the long run. The LTV data on different cohorts provides the direction you need to focus your time on factors that grow your business. Lifetime value cuts through the noise and tells you exactly where to find your most valuable customers.

Key performance indicators are perhaps your most important tool for understanding how your prices are being received by customers.

Adjusting Your Price: What About Existing Customers?

If test results and research indicate that a price increase is needed, how do you adjust your pricing without damaging existing customer relationships?

First, it's important to understand the following:

- How a pricing increase might impact churn and overall revenue
- How it could affect your company' s market position.
- How your audience is likely to react.

Second, if the strategic data-driven decision is made to change the price, communicating the price change to existing customers - and promoting it to new ones - as quickly possible is advisable.

Do your homework. Know your audience!

In 2011, Netflix planned to stop offering access to DVD rentals and discontinue unlimited on-demand streaming video for $10 per month to users and instead charge for both DVDs and streaming at $15.98 (about a 60% hike). The results?

- Netflix lost 800,000 enraged subscribers
- Their stock price dropped 77% in four months.

Netflix Nosedive

Source: Netflix

Here are a couple of common ways to soften the blow when adjusting the prices your existing customers pay:

1. Grandfathering

This method guarantees customers that there will be no price increases for as long as they use their current plan. Grandfathering can be effective with customers who are price sensitive, or have low customer satisfaction.

2. Grandfather Discount

Similar to grandfathering, grandfather discounting is a ‘meet in the middle’ approach. It provides a discount only for a certain period of time. You should make both the discount and when it expires (for example, in 3, 6 or 12 months) completely clear when communicating with the customer.

Users are much more accepting of a price change when they feel like they’ve received ample heads-up and compensation for being a loyal customer.

Grandfathering and grandfather discounts are two common ways to soften the blow when adjusting prices.

Key Takeaway: Test Early & Often

Pricing for SaaS is such a core part of the product and business model that it's essential to validate it early and often.

Just as you would test your user experience, test your pricing by using a combination of qualitative customer interviews and quantitative price testing.

The most reliable results are those derived from real customers. That being said, surveying potential customers can also give you valuable information.

Most of all, test often, remain agile and focus on what your customers are getting from your product. Securing the right price for your product or service gives you a recurring revenue stream that places your product's price well in line with its value.

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Chapter 4
Ecommerce Pricing Hacks

Online sales continue to see rapid growth. But while the number of online buyers continues to increase, the competition for them is growing even faster.

To stay competitive you need an optimized price. This means researching and defining a strategy that fits with your target market and brand rather than ‘winging it’ based on intuition or the pricing of the competition; and you need to be wiling to adjust it, if required.

There are a surprising number of pricing techniques that can dramatically increase sales and revenues. On the following pages, we'll include five of the most compelling tactics or ‘hacks’ we've found that every B2B SaaS company should keep in mind when formulating their perfect price.

Remember: Pricing strategies need to be continuously optimized for maximum value.

1. The 'Nine' Factor

Enter pricing psychology tactic number one. Otherwise known as charm pricing, the nine factor is one of the most widely used and oldest pricing practices.

Ending prices with .99 or .97, or a little less than a round number, is a psychological tactic that profoundly a˜ects buying decisions. Part of the reasoning is to do with the pricing perceptions of consumers themselves. The typical consumer reads numbers from left to right, which is called the left-digit effect. When buyers do this, they interpret a $7.99 price as $7 – especially if they are scanning quickly.

Is it an effective strategy ? Yes, resoundingly so. In his book Priceless, William Poundstone dissects eight different studies on the use of charm pricing and found that, on average, they increased sales by 24% versus ’rounded’ price points.

Ending prices with a little less than a round number is a tactic that has been shown to profoundly affect buying decisions.

2. Contextual Pricing and the Power of Perception

The following three examples refer to specific contextual situations that reflect 'unfair' location-based pricing perceptions, invalidated perceptions of rarity or value, and price priming.

You bought that where???

Richard Thaler conducted a pricing experiment that consisted of buying a beer for a friend on the beach. In the first scenario, the participant was asked if he wanted a beer from the local rundown beach-front store. In the second, he was asked if he wanted a beer from the posh beach-front hotel.

It seems to strike people as inherently unfair if they are required to pay the same price for a beer from both places – even if the beer itself is exactly the same. Participants were more likely to opt for the beer from the resort at a higher price. In the B2B SaaS world, it is worth testing this scenario with various resellers who offer different customer experiences online to undersatnd if their is an envrionment or experience that promotes a higher price without a decline in volume.

It's relatively expensive therefore it MUST be more valuable!

A case study from the best-selling book 'Influence' discusses this phenomenon. A local jeweler sold out of turquoisejewelry when it was accidentally priced for a sales event at double and not half its initial price.

It was relatively higher in price when compared to other jewelry and, in context, was perceived by the customers to have a "higher value" without any explanation or validation.

Price priming

The best way to sell a $3,000 service is to lead with $10,000 service.

In the same vein, a $60 dinner doesn't look quite so bad when anchored next to a $300 dinner

Price Priming and Your SaaS Business
Services don't look 'cheap' or 'expensive' on their own, only in comparison to something else., You might have a $199/month plan that exists mostly to make your $79/month plan seem like a steal.

3. Price to Meet Your Objectives

Your businesses growth objectives and revenue targets should guide your pricing strategy.

For example, a business that's highly focused on gaining market share may choose an aggressive ecommerce pricing strategy to undercut the competition, even if the result is a temporary decrease in revenue and profits. As you can imagine, these tactics are pretty cut-throat.

Alternatively, established businesses with strong brand recognition may want to capitalize on the psychological appeal of luxury pricing and maximize revenues with prices that are somewhat higher than competitors. Testing this type of pricing is always a good idea if it is new to your business.

Starbucks also employs this strategy. Rather than trying to compete with cheaper chains like Dunkin' Donuts, Starbucks uses price hikes to separate itself and reinforce the premium image of their brand and products.

Starbucks' loyal following isn't especially price sensitive and, as a result, their coffee maintains a fairly consistent demand meaning that a small price increase can have a significantly positive impact on their margins without decreasing sales.

Van Westendorps' Price Sensitivity Meter can be a useful starting point for further analysis and provides a range of perceived vaues of your product.

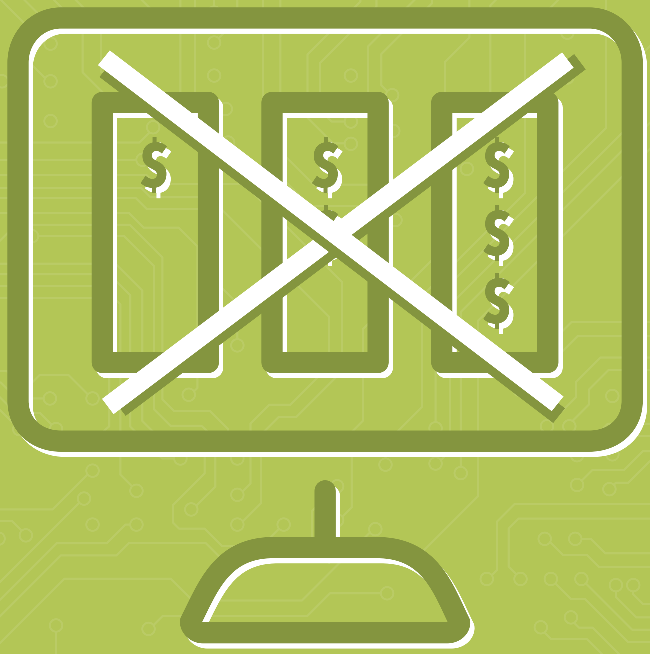
4. Dollars and Sense

Studies also show that people 'see' numbers with dollar sign ($) and decimal points as being bigger. Odd but true.

For example, if faced with choosing between a product listed at "$17.00" or one listed at "17", or even "seventeen" most people would psychologically perceive the latter two as being a lesser number.

The reason behind this seemingly irrational perception is that we subconsciously associate longer verbal lengths (when we internalize the price in our mind) with higher values.

A study by Cornell provides an excellent example of the lack of currency symbols on menus. Interestingly enough, people spend more when there are no dollar signs in this industry.



Psychologically speaking, the dollar sign is a symbol of cost, not gain, and our brains are hard-wired to protect our money when we see it.

5. The Bonus of Bundles and Decoy Pricing

Behavioral economist Dan Ariely, the author of Predictably Irrational, shows us that we're really not as rational as we think we are when we make decisions.

An example concerns an ad The Economist ran a few years ago in which they offered three subscription options:

1. A web only subscription for $59
2. A print only subscription for $125
3. A print and web subscription for $125

At this point the print only option doesn't seem to make any sense. It's redundant. Who would want print only when they could have print AND web for the same rate? And that's how 84% of Dan's MIT students voted.

So, being that the print only option seems to be entirely useless, Dan removed it and ran the test again on a different group of MIT students.

They were presented with this choice:

1. A web only subscription for $59
2. A print and web subscription for $125

Here it's not nearly as attractive to spend an additional $66 on print, which is how 68% of students voted.

Interestingly, that "redundant" middle option wasn't entirely useless after all. It generated a lot of additional revenue by placing the third alternative in a much more positive light and was, in fact, a decoy bundle. This practice is also known as price anchoring.

Optimizing Your Price = Revenue Growth

For B2B SaaS businesses, tactics like bundling, nines and decoy pricing can all contribute to setting and keeping an optimal product price.

Continuous testing and knowing your market are other key aspects to setting and adjusting the right price for your product or service.

Trying out some of these pricing growth hacks is a great way to maximize sales and revenue. Price carefully using market research and a consistent strategy. By doing so, you will provide value and inevitably grow your customer base and revenue.

Interested in more ways to grow your recurring revenue?
Contact us at discover@paymotion.com.

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