

For months now, at June, we have been doing some intense positioning and brand explorations. I've been trying to reconcile everything that I have learned in the last 15+ years about building, positioning and pricing software on-line with the 2024's awakening realization that the tech industry has well past a maturity point and it just looks like most other sectors.

Some instincts led me to focus on one of the most debated dichotomies in startupland that I think captures well the dialectic at play between today's and yesterday's practices and approaches around product building. I think my instincts were right and that idea is the pricing-positioning relationship.

Every startup founder wrestles at some point with the idea of pricing. And if you've been working in this industry for the last decade or so, you've probably already read hundreds (if not thousands) of things on the topic. The conundrum is a classic, not just for the newcomers who are busy building whatever the next generation of consumers and businesses require (AI powered software or hardware, etc) but also for many of the early practitioners who have been down in the trenches for years and still have plenty of questions and doubts. In 2024 I still hear and read questions like "Should I go with a freemium model or not? When does it or doesn't work?" "Free trial or freemium, what does work best here?" or also "I built XYZ product, how should I price it? Is X-price too high or is it too low? Maybe, is it too average?"

In the most recent literature there is an unsettling tension between, the overly prescriptive pieces that boldly commit to one claim ("Freemium almost K-I-L-L-E-D out business!!") and the ones that don't commit to anything substantial and leave you with not much. Self-proclaimed truth tellers that seek no other than their own "opinionated" prescriptions, from one side; neutralists that just hide their vagueness and hollow opinions between a generic "pricing is more of art than than science" and "there is no perfect pricing".

My hunch, and what I ultimately intended to explore in this essay, is that most of these pricing dilemmas are actually just positioning dilemmas in disguise in search for a quick and easy fix. As we will see soon with more detail, pricing and positioning are complex constructs deeply interlinked with each other and (bad news for us) there's no easy fix.

That said, I hope this post can strive for a decent balance and truly go at the heart of pricing, not from the tactical perspective of scoping models and frameworks out, but from the standpoint of what it truly means to price something and why much of it has to do with its positioning.

Now... onto the post.

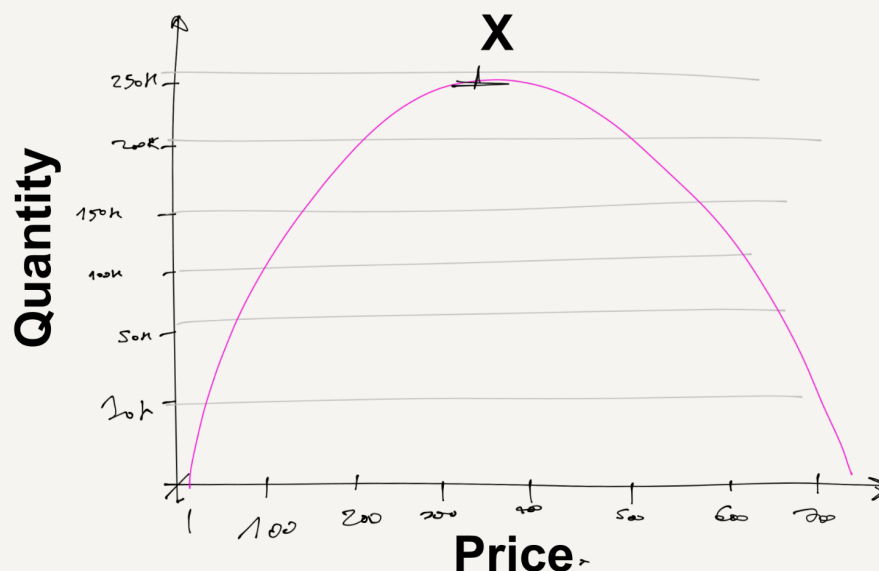
From pricing to positioning

Premises are boring. I don't like to write them as an author and I don't like to read them as a reader. But here, for everything else to make more sense, we have to reason from first principles.

So, what is pricing and how is it linked with positioning?

In simple economic terms, the goal of any good is to find the price at which profit is maximized. “Not too high” so that we scare some of our potential customers off, and “not too low” so that makes us leave good money on the table.

Also in simple economics terms, revenue is “quantity” times “price.” If we represent this relationship as a parabola where “quantity” and “price” are the axis, then it's clear that the “best price” should be the point at which the curve peaks. Right in the middle.



In the perfectly rational and overly simplified world that most of the neoclassical economists love to inhabit, this makes (more or less) sense. Yet we know in the real world things are much more complicated than that. Otherwise we all could just construct our demand/supply curves, identify the substitutes, measure elasticity, and price things perfectly to maximize profits.

Pricing and positioning are really 2 sides of the same coin. Like 2 dependent variables, you can't quite alter one without ultimately changing the other. And it's within the Gestalt resulting from the right combination of these 2 that we can ultimately understand with great clarity (as consumers) why we need a product and what is the thing that ultimately drives us towards it.

Without going too back in time, take for instance, Gillette's or Xerox's ideas. It's not in their products themselves (razors and copiers), but in the interplay between their positioning and their pricing strategies ("cheap razors + expensive blades" or "lease the copier + sell the toner") that we actually got what makes so sense about them.

They're not isolated cases. Many of what are considered to be the greatest innovations of the last decades, aren't quite technological breakthroughs as much as they are pricing and positioning innovations. If you think about it, the entire cloud computing sector is driven by a single, profound pricing-positioning idea. Turn OPEX into CAPEX and let enterprises pay-by-the-sip \$0.10 offerings instead by the million.

Going back to our economic example, the "right price" of a good is now more than ever, increasingly less the numeric representation of the so-called [marginal product](#) and increasingly more an artificial abstraction that is more contingent to its market positioning and the public perception of that good.

As humanity moved (and still is) toward a post-scarcity world, value capture and value creation are much more contingent and subject to change. Value creation isn't anymore technologically determined by the characteristics of the [factor of goods](#) and now largely depends on how business and engineering ideas are intertwined, on how different strategies are employed. And much of the value capture that happens downstream is now mediated by "brand" and "positioning", much more than the direct, economical resources that were employed to create it.

Atoms and bits: towards post-scarcity

Before we move on and talk about stuff that's closer to startupland, there's also another important consideration that I wanted to make. Even though we sort of hinted at it in the previous paragraph, we haven't made yet a clear distinction between software products and physical products. Or, better says, things made of atoms and things made of bits.

Historically, the "digital world", made of bits and bytes, was a world of *abundance*, because software could be produced, distributed and infinitely replicated at [zero marginal costs](#). On the other hand, the "real world" made of atoms was a world of *scarcity*, because production of goods was capped to raw materials, physical labor employed, and the other factors of production.

My theory is this. To some extent, these 2 worlds are on a converging trajectory. A century ago, manufacturing a product like a T-shirt required extensive knowledge and skills: cultivating and processing high-quality fibers, employing skilled labor, and managing numerous other intricate steps along the way. Unnecessary to state that things today are quite different. With the abundance of resources and services available, you can outsource nearly every step of the supply chain. From sourcing the raw materials to drop-shipping finished goods ready for packaging and resale, the entire process has become significantly more streamlined and accessible.

Even though the physical world is fundamentally limited and governed by scarcity, in many areas and domains, this is a scarcity that feels almost infinite. Despite being theoretically finite, the abundance of resources and options available makes the limitations seem negligible. And whether this abundance is truly infinite, as in the case of digital bits, or not, the practical effect is strikingly similar. On a long enough timeline, the market becomes saturated with a plethora of very similar, undifferentiated products, each vying for a positional edge and seeking ways to create artificial scarcity.

T-Shirts (or replace it with most mass-market goods) aren't scarce anymore despite being physical items. What's truly scarce today is the ability to create a positioning powerful enough to break through the noise and attract significant consumer demand. Whether the product is physical or digital, scarcity is shifting away from the "unit of capital" (how efficiently you can route money to produce a good) and towards the "unit of attention" (how effectively you can simulate scarcity and aggregate high demand).

This is a dynamic that many consumer brands (like fashion) and influencers have understood and implemented better than most other founders. The entire notion of "drops" is a pricing and positioning construct designed to create artificial scarcity for products that are fundamentally abundant.

However, while these two worlds converge in certain aspects (branding, positioning, pricing, and go-to-market strategies), they remain fundamentally different in others.

In the physical world, the concept of artificial scarcity is limited by the intrinsic [excludability of goods](#) (either Alice has the ball or Bob has the ball; they cannot both have it simultaneously) and this inherent limitation restricts the degree to which scarcity can be manipulated.

Conversely, the high malleability of software allows for greater flexibility in creating perceived value. Bits can be modularized, organized, and packaged in a myriad of different and creative ways, enabling the simulation of scarcity and the crafting of unique, value-added experiences that are not possible with physical goods.

Which is why I think, over the years, the software industry has become highly creative with pricing strategies, introducing concepts like [freemium](#), per-seat pricing, tiered pricing, persona pricing, flat rate pricing, and so many other upgrade mechanisms.

Thinking about pricing and positioning

I initially started this article with the idea of writing about “pricing for startups”. Essentially, charting and exploring some of the in-use mechanics (like some of the ones I just listed above) behind the most conventional freemium and premium pricing models.

Fifteen minutes in and I realized two things. First, I’m far from being the first to write about pricing on the Internet (deep down every startup founder harbors a delusion of grandeur), and plenty of people smarter than me have already covered this topic, arguably better than I could ever hope to.

David Sacks (before he decided to make his way into [showbiz](#)) was a solid entrepreneur and wrote plenty about [freemium vs trials](#) among the [other interesting things about positioning](#) (considering how well Yammer won the positional battle against Jive). My friends [Elena](#) and [Lenny](#), did terrific series of essays in their [respective Substacks](#) about freemiums, trials, modalities of upgrades, and more. Some good startups out there like Equals, Linear, [...] and [...] have also been blogging really good stuff about pricing. And there’s these [awesome primers](#) written by [Akash](#). Not to mention all the things that the true OG internet startups wrote about pricing over the years: Fred Wilson, [Patio11](#), [Jason Fried](#) and Lemkin, among the others.

And second, in 2024, startup literacy isn’t nearly as valuable as it was a decade ago. All the cards are laid out on the table, practices and approaches are ubiquitous, and everyone knows everything. What were once insider tricks have become overused tactics and standard industry playbooks. Understanding “pricing strategies” feels less like an applicable skill and more like an exercise in style.

Like Alice learns in Wonderland, when she asks the Cheshire Cat “Would you tell me, please, which way I ought to go from here?”, if you don’t know what your final destination is, then it doesn’t much matter which road you take, because they’re all right and all wrong at once.



"I GROWL WHEN I'M PLEASED, AND WAG MY
TAIL WHEN I'M ANGRY."

Many of the founders I encounter today remind me a bit of Alice, asking seemingly simple questions about pricing or other topics that conceal deeper insecurities and cracks in their ground positioning.

I don't say this with any derogatory intent—figuring out positioning is incredibly challenging. In a complex and noisy world where channels are saturated and everyone is fighting for attention, building genuine [one-to-one relationships](#) is harder than ever. Building good software is still difficult, but doing effective positioning has become exponentially harder.

That sort of promised land where customers are flocking to your door, perfectly understanding your product and what it stands for, placing it in the right category, comparing it to the right tools, and (most importantly) agreeing that your pricing reflects the

value they receive is, unfortunately, a reality many founders will not experience.

And since I don't believe it's possible to develop a single, overarching framework or image that captures the nuances of this pricing-positioning dichotomy, I won't attempt to do so.

Instead, I will share some heuristics, approaches, and insights on how I have been thinking about the relationship between these 2 ideas in more recent times.

From Product to Position-Market Fit

To the evergreen question of “I’ve built product XYZ, how do I price it?” one could answer in a myriad of different ways. That you start with something cheaper and then work your way [up the market](#) or that you do the [opposite](#), start with some premium and then make it more accessible. Or perhaps neither of those, by saying that “you should just pick one, talk with customers and quickly iterate”.

To which, in turn, I say: bullshit. If you find yourself asking this question it means that you have overlooked your positioning. I believe that the right pricing *picks you* based on the position you (as a company) occupy on the market, *more* than you pick your pricing based on a bunch of arbitrary factors.

There was a time, not too long ago, where in startupland one could build a thing that solved a real problem, put a price tag on it, and see if the market wanted it. If they did, then we would have said he had found product-market fit; if they didn’t, we would say he didn’t and it was “back to the lab.” That time, for better or worse, is long gone. I don’t quite think that in 2024 a utility provided through software can’t make a dent so effectively anymore. People’s heads are overstuffed with competing products, messaging, and narratives and it’s really hard that a product alone can get a market edge. There are exceptions obviously around new tech or hyper-niche markets and ChatGPT is obviously one of the greatest examples in recent memory, but these are rare instances of breakthrough technology (or “radical innovation” borrowing Clay Christensen’s dictionary) where the “product” itself carries the bulk of the impact.

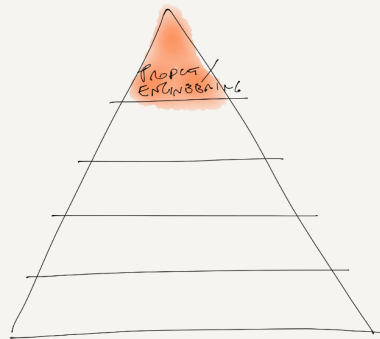
Most companies don’t have that luxury and are not in such a position.

So, if a product alone isn’t enough, then what *is enough*?

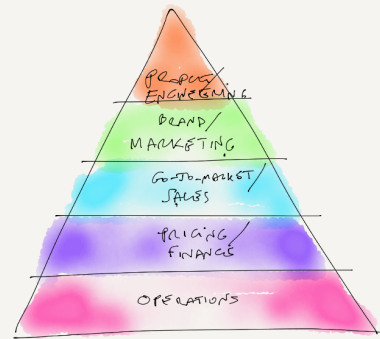
There’s a bunch of things that I think that nowadays matter, even at the earliest stage that didn’t some time ago, but I’ve started to conceptually refer to this kind of positional edge as “position-market-fit”. Which is a term that I borrowed from [Matt Hodges](#) and his recent essay. Although his post isn’t quite a reflection of my definition of “position-market-fit”, I still think the term fits the case and I hope it sticks.

If “product-market-fit” means that you’ve found the right kind of product that the market wants, “position-market-fit” means that you’ve found the right combination of product/brand/marketing/pricing/go-to-market/sales/etc in a given domain.

Product-Market-Fit



Position-Market-Fit



The fundamental reason why “position-market-fit” is so important is that it operates more at a personal and subconscious level. It occurred to me that our brains can only conceptualize a finite set of “characters” per domain. Similar to the “Dunbar number” rule, which suggests we can maintain stable social relationships with up to 150 people, our brains are wired to understand only a finite number of company-market associations.

Gaining a strong positional edge, or nailing “position-market-fit” can be seen as the exercise through which a company, with the right combination of product, brand, pricing, marketing and go-market is able to conquer a certain portion of consumer mindshare or, as I started to call it “brain-estate.”

If you step back and analyze some of the best startups from the last decade, you'll see they excelled at this. Their success was often not due to a far superior product (though there are exceptions) but rather a positional edge built on a foundation of multiple layers, with the product being just one of them.

Are you building in an established market dominated by large incumbents with feature-bloated, slow, and clunky software? In that case, you might want to position your product as a speed-first, high-craft, premium option, similar to a luxury car company. Does Linear ring a bell?

Alternatively, if you're entering a highly commoditized market dominated by a few corporate-looking brands, consider positioning yourself as the quirky, fun company that doesn't take itself too seriously. Embrace the David vs. Goliath narrative with bold, edgy marketing and design. Does Arc Browser come to mind?

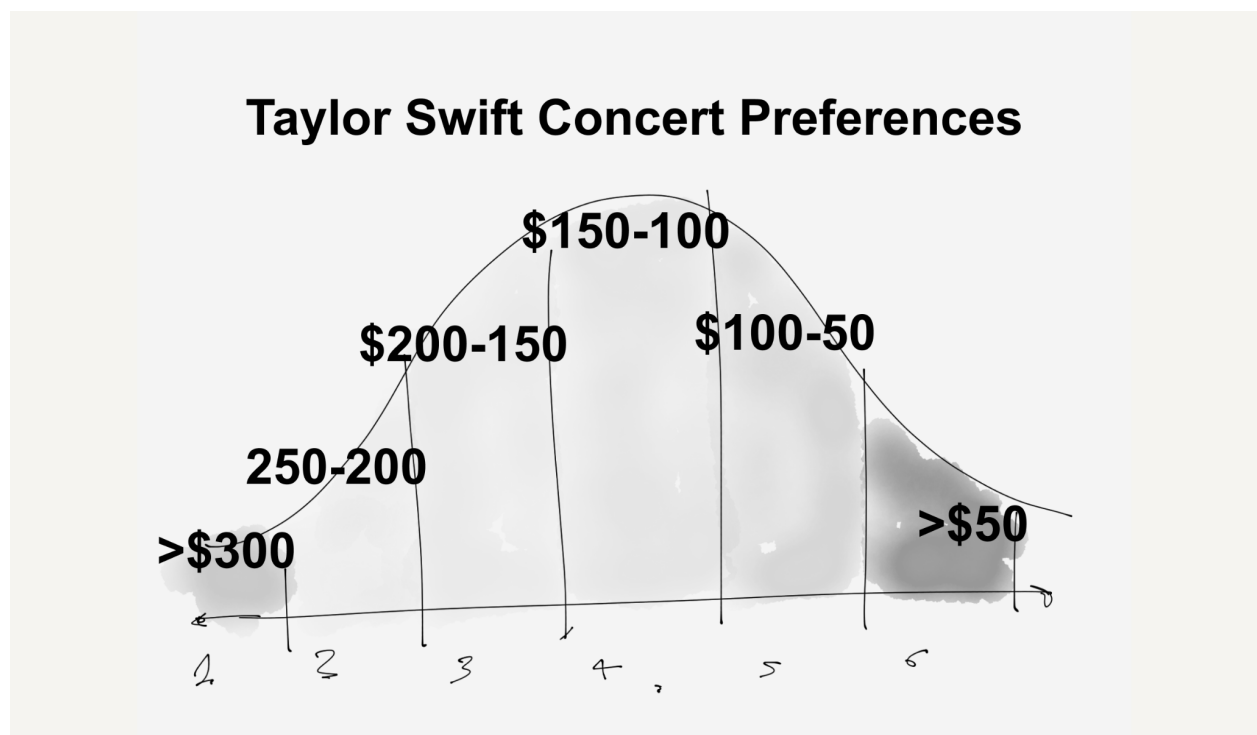
It's completely obvious at this point that their pricing strategies are almost a second-order effect of their employed market positioning.

One thought that sorta kept coming to me is that while product-market-fit (as intended of product-driven market fit) are much more limited and less available, opportunities for “position-market-fit” are still out there. And I believe it’s quite possible to discover new positional angles and ideas that have been overlooked by others. Things there we tried in the past but didn’t succeed because they didn’t find the right levers or didn’t push long enough on them. But how to go about them, it’s perhaps material for another post.

Abundance and bifurcated outcomes

In 2020 I read a thing from Alex Danco [in this awesome series](#) that has stuck me ever since: abundance creates bifurcated outcomes. Let me articulate parts of his idea.

In a world governed by scarcity – which is the one we’re used to thinking about – consumers make purchasing decisions and have preferences following a multi-factor consideration process in which they account for a wide range of criteria. So, in the classic [MBA exercise](#) in which students are asked to put a price on Taylor Swift concert tickets, people would naturally be inclined to factor in a variety of variables. Obviously major variables like: their net income, their personal music taste, the date of the event, etc. But also minor, more subtle elements: how close the on-site location is and how well connected, whether any of their friends are going with them, any press reviews of previous concerts, etc etc. The resulting outcome of that multi-factor process is a normal (or Gaussian) distribution curve.



There is a minority of folks that will absolutely love to be there. Then there's another minority of folks that couldn't care less of the event. And finally there's a majority of people who *might like to go* to the event depending on the different circumstances and some of the variables we just listed above.

Alex's main idea is that in an environment governed by abundance, this process shifts significantly. Instead of a normal distribution, the outcome becomes bifurcated. When consumers are no longer constrained by a scarce thing but rather have access to a wide plethora of similar, overlapping alternatives their preferences are more likely to gravitate towards the extremes. Either very high willingness to pay for premium experiences or very low willingness to pay for more commoditized options. This polarization in preferences results in a different market dynamic where the middle ground diminishes to the point it vanishes, and the distribution of outcomes splits into two distinct and discrete segments.

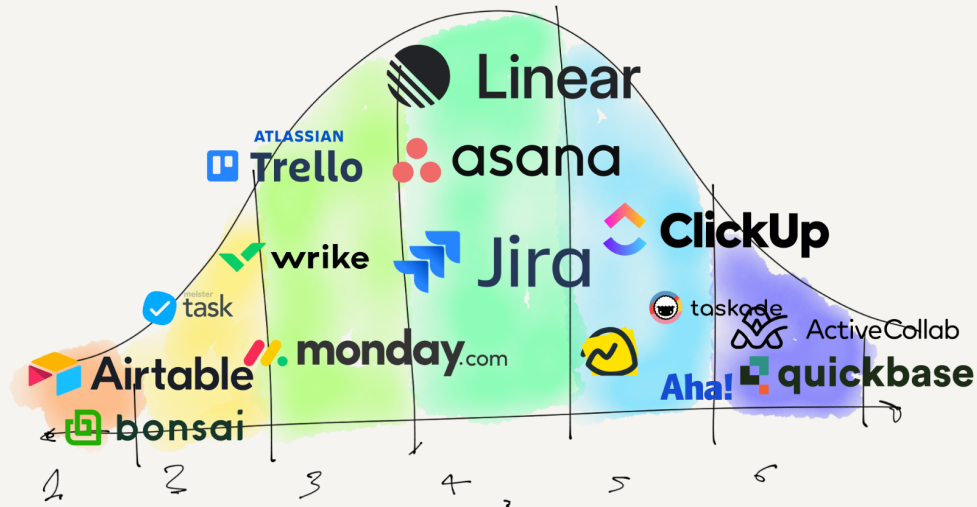
Continuing on Alex's [original metaphor](#). If you are looking to buy a new smartphone, either (a) you've made the conscious decision that having a good smartphone is a thing that matters in your life to the point that you're committed at getting the absolute best device available on the market at no-matter the price, or (b) you've decided that getting a smartphone isn't a thing you consider valuable and you're likely to look for the one that gives you the minimum socially acceptable at the cheapest possible price.

Or better said in the original Taylor Swift exercise: either you are a passionate fan and you're willing to go to the concert at whatever price you get, or you just couldn't care less and you probably just prefer watching Netflix rather than going to the concert even at a fraction of the original box office price.

In the de-facto, abundant world of software made of bits and bytes, the analogy, if possible, is even more obvious. In any given software vertical or Gartner quadrants, you typically see a clear distinction between the market leader and everyone else. Either you are among what are the perceived unique products of the category or you are commoditized to the point you are competing primarily on price.

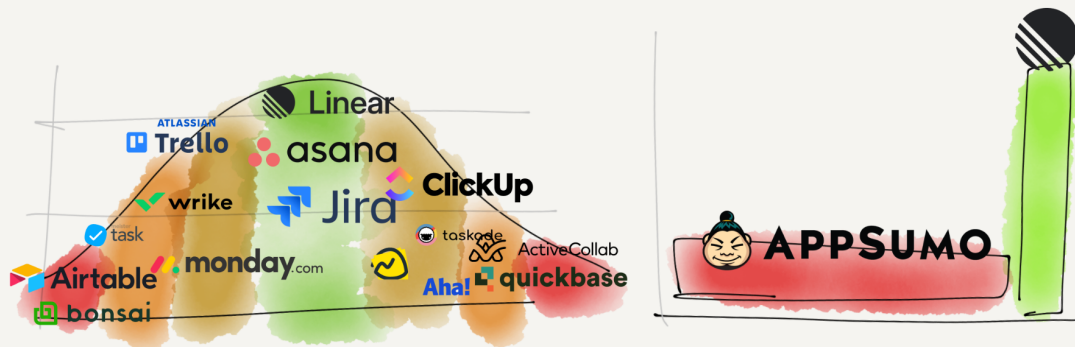
If not long ago, most of the SaaS buying processes revolved around comparing available options and going through an infinite checklist of features to decide which one worked best, nowadays this dynamic has also shifted. For many categories, what makes the best option is either what is widely regarded as the "best" option according to conventional wisdom, or the cheapest alternative.

SaaS Distribution Preferences



This widening bifurcation of consumer preferences, which unfortunately spells bad news for most of us, has become an arbitrage and profitable opportunity for others. Platforms like AppSumo capitalize on this massive long-tail of undifferentiated, unpositioned, and largely commoditized software by aggregating the demand of consumers who don't care about consensus on the "best" product and are simply looking for the cheapest option available. These platforms bundle various software solutions, offering them at ridiculously discounted prices (often one time payment) to attract buyers who prioritize cost-effectiveness over brand or consensus on quality.

From “Normal” to “Bifurcated” Distribution

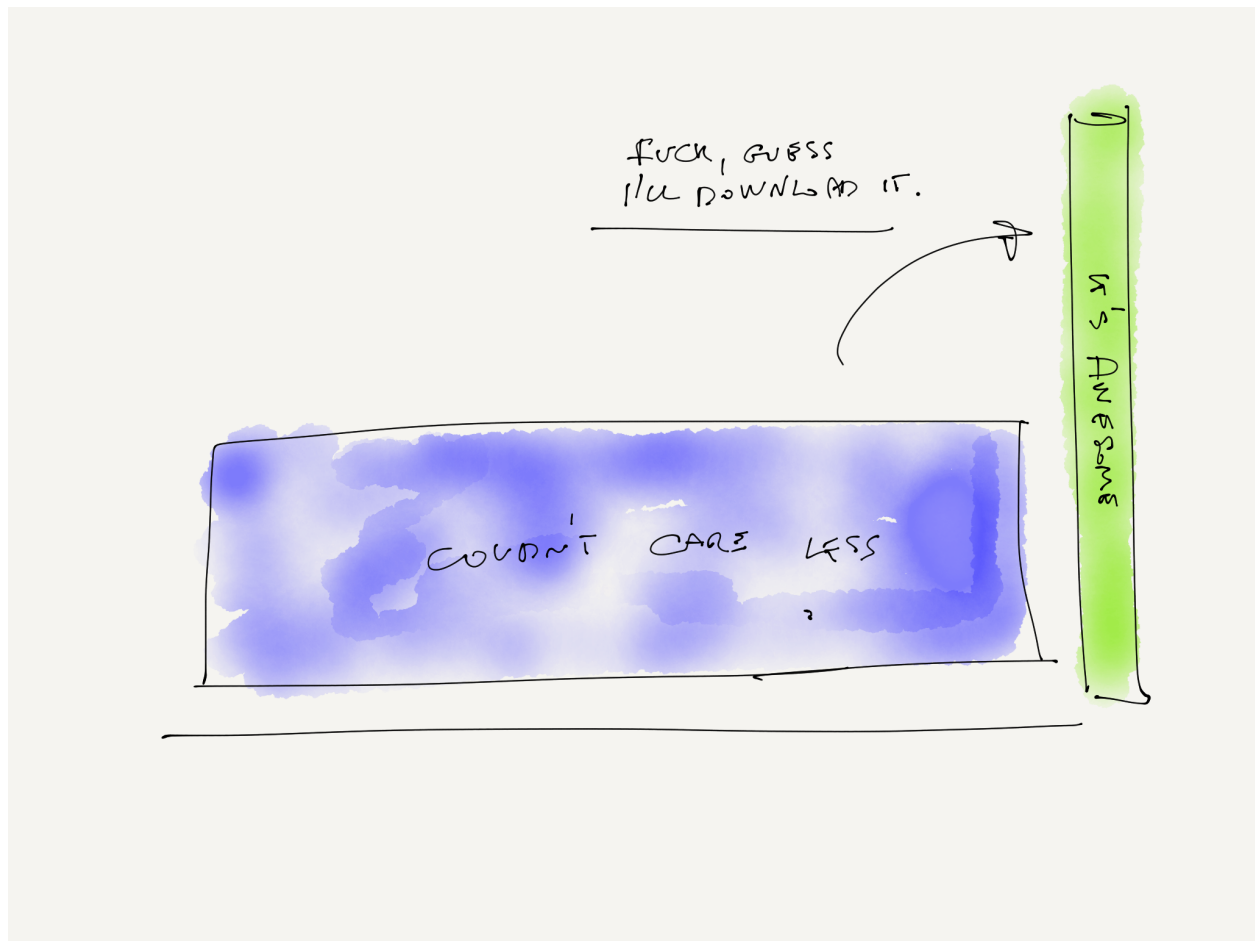


And, it's not just “aggregators” (if Thompson indulges me) like AppSumo, but also companies like Monday and ClickUp have deliberately gone full throttle on this strategy, providing most of the features at a fraction of the price. It's clearly not the highest quality software out there, but it's pretty, pretty, pretty good for the price.

As a founder, how can you effectively position your product in a landscape where increasingly more people either choose the market leader or the most cost-effective solution? To me it all goes back once again to the notion of “position-market-fit” and focus on capturing a portion of the brain estate. Which means understanding how and why there's a small fraction of people that should massively care about your product and what you stand for.

In this new world the ultimate challenge for a new product landing on the market it's not about slowly moving people through the awareness “funnel” or capturing as much as the demand curve, but rather it's about creating a stimulus that is so strong, so evident and so obvious that it can't be ignored by whatever fits your right definition of users. If you think you're still here building products, think again—you're all here manufacturing desire.

This is a play that resembles, more than your classical B2B play, what consumer folks like Nikita Bier have been doing for the last 5 to 10 years. How can you position a product that is so obviously geographic, demographic, and context-specific to the fitting definition of your user that it'll make them go like: “Fuck it, I guess I have to download it”?



Unless for rare exceptions, which I hinted at in the first part of this article, the exercise many startup founders must go through today is much more akin to creating a consumer brand—or any other company in a commoditized market—than a traditional software company. More about crafting a compelling, differentiated identity and positioning than just building functional, utility software. Much closer to Virgil Abloh creating Pyrex Vision than Bill Gates creating Microsoft.

But once again, this is a position-market-fit effort where all the ingredients—product, marketing, and pricing—must be factored in the right order, position, and dose. And it's in this scenario where pricing has the potential to become an integral aspect of position-market-fit and fundamentally change how the company might be perceived. And not just in the most banal way, where premium products cost more and non-premium products cost less, but in more nuanced and strategic ways that define the company identity and market position.

Take Basecamp, for example. The decision to resist the potentially more lucrative “per-seat” pricing model, is to me what sets them apart as a brand that you can trust, centered around a value proposition focused on simplicity and transparency. Similarly,

OSS (Open Source Software) companies like Sentry or Cal demonstrate their commitment to community and user control by allowing on-premise installations. An approach that highlights their emphasis on flexibility but also serves as an open commitment to brand and community building, as well-put in [this blogpost](#) by David Cramer, Sentry CTO.

Pricing strategies and equilibrium

Here's a thing that typically bothers me in startupland:

1. Founder starts a successful software company
2. Founder has a hunch to experiment with a different pricing strategy
3. New pricing strategy doesn't work as expected
4. Founder writes a loud blogpost about why the strategy didn't work for them

There are obviously many reasons why this change in pricing strategy might not work and I do not intend to make an ultra general case. But I have to say that more often than not, the failure isn't due to the new pricing strategy per sé; it's because *everything else* in the company is already aligned with the previous pricing model.

Let me articulate better. Another way of thinking about position-market-fit is as an equilibrium state. If you build the right thing, in the right market, with the right brand and sell it to the right people and at the right price, you'll achieve some sort of position-market-fit. In this ideal state people understand your product, align with your values, and perceive the price you ask as commensurate with the value you deliver. If you could map their brain, you'd see your product occupying a solid "territorial" advantage compared to other adjacent, competing products.

It's an equilibrium where all the positioning levers all work in concert. Companies that achieve strong position-market-fit tend to enter a state of perpetual self-sustainability where they could continue to grow and thrive almost naturally, with all aspects of their business—product, market, brand, and pricing—aligned and reinforcing each other.

Now comes the interesting part, what happens when you intentionally mutate one of these variables? When a state change occurs to one of these variables there will be forces at play that will try to revert back the system to the previous state.

Organizations are complex systems, and system problems cannot be fixed with a single step or through a sequence of linear steps. When systems find a steady state—which is likely where you encounter them when they have a strong position-market fit—they are "steady" not because they are static, but because the forces acting on them are counterbalanced by feedback loops. If you try to change one variable, you can exert as

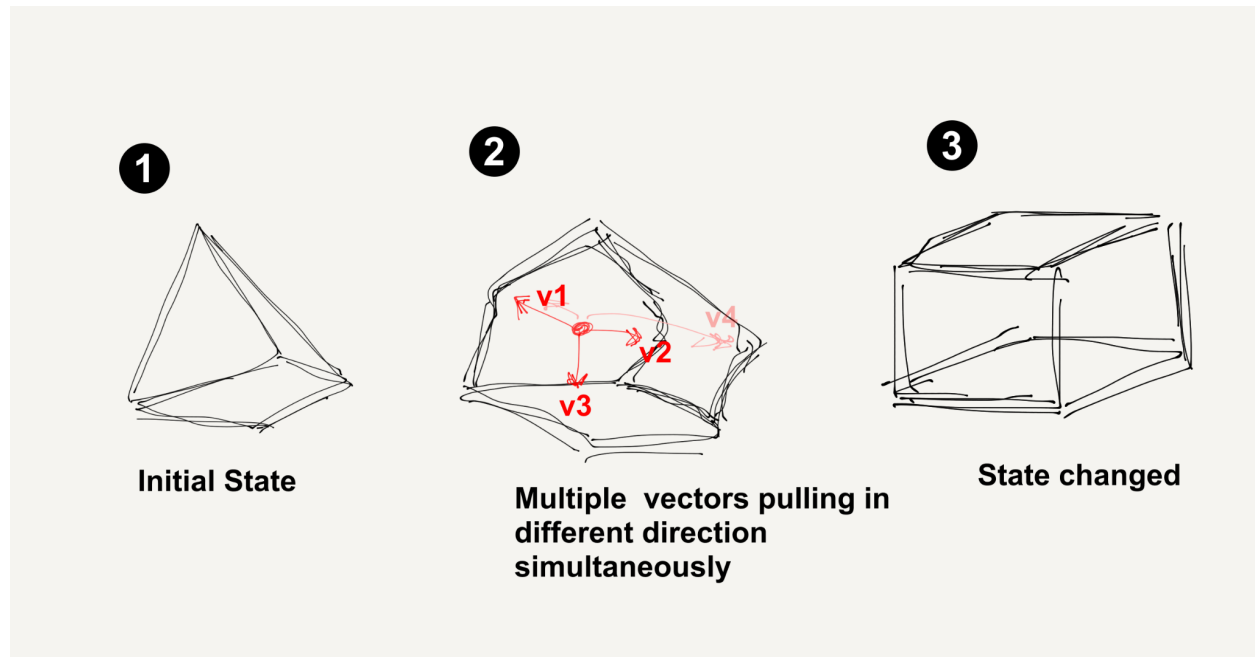
much effort as you like, but as soon as you stop, the system will revert to its original configuration.

We see this dynamic clearly at play with pricing changes. When founders set out to "try out" different strategies, they are essentially attempting to move from one state of equilibrium to another and that never happens by altering a single or a set of variables in a sequenced motion.

So in the frequent scenario where founders just want to slap a freemium model on top of their offerings in the hope to increase the top of their funnel and accelerate revenue, several *tòpos* often unfold. Sometimes, the *product* isn't quite suitable to accommodate the freemium model because, as it was originally designed and conceived, it struggles to be adapted and to be packaged in ways where the free offering is enticing enough to attract new users but not so comprehensive that it satisfies all their needs. In other cases, while the product adapts well, operational challenges emerge. For instance, managing the influx of support tickets from free users can be more resource-intensive (if you remember this [thread](#) from RainforestHQ CEO or this [HN discussion](#) from Baremetrics). Other times, it's a marketing misalignment. The brand attracts an audience with different purchasing behaviors and some users may expect a high-touch experience, while the freemium model typically offers a self-serve approach.

The stronger the position-market-fit of a company, the more vehemently and violently it snaps back to its previous equilibrium state, making single variable changes more likely to be nullified. This sudden, and brutal slack is, I suspect, one of the reasons why founders become particularly vocal about it; they didn't see it coming and didn't expect an apparently "steady" situation to suddenly become dynamic and work against them to restore the previous state of equilibrium.

If you want to change how a system works and move it into a new steady state closer to your goal, sequential effort won't help it. What you need is parallel effort: several different things need to happen simultaneously for the system to move in the desired direction and, most importantly, remain there.



This is a challenging exercise, and it's no wonder why very few companies manage it well. It's difficult because, first, you need to identify all the variables involved that need to be altered. Then, especially if it's a company that already has some form of market fit, you have to coordinate a large group of people, each pushing on their part of the system. Given the complexity, it's likely that you won't push the right levers at the exact same time, so you must account for the time it takes to figure things out while you are in this intermediary, unbalanced state.

Over the years, this has led me to believe that the most impactful pricing strategy changes (in case you're asking, no, "trials" aren't pricing strategies and you have much more exploration and agency) are discovered organically and over time. Many companies experiment with pricing, but these changes are often incremental steps and marginal improvements that follow the organic shifts in positioning.

Conclusions

We've come to the final part of this already quite lengthy essay. I will spare you the wrap-up ceremony where I go through my previous points. But I'll say this: in the last 20 years or so, everything in startupland has been turned into a playbook. My intention here wasn't to provide you with a set of "quick solutions" or a "cheat-sheet" for your problems. Frankly, I neither think I'm qualified to do so nor believe it can be achieved in a generalized blog post. My aim was to share some ideas and reference points that I

currently use to navigate the complexities and challenges of creating, building, selling, and marketing products. As I hope is clear by now, these ideas are meant to just help you think critically.

This is an ever-changing world. What once worked may no longer hold true under today's conditions and what was once said might not apply now. Think from first principles, take inputs that describe this world, but don't necessarily take their conclusions (or mine, for that matter) or their prescriptions about what you should or shouldn't do.

Be cautious of what you read, especially overly prescriptive blog posts with loud titles conceived to attract clicks and attention. Stay in your lane, build stuff people want, and understand deeply what makes them attracted to your product and why.