

Guide to pricing models

Your business' pricing packages have a big impact on your revenue. There are a lot of strategies you could use and it's essential to understand your market value.

While pricing primarily falls under product and product marketing's umbrella, it's worth having enablement involved in the conversations.

It's especially important when it comes to the ability of the pricing strategy to be understood and communicated effectively. If the enablement team struggles to teach it, the sales team will struggle to communicate it to prospective customers.

For that reason, it's a good idea to be in the know on common pricing strategies.

Pricing strategies

Pricing strategy	How it works
1. Cost-plus pricing	This pricing strategy involves adding up your costs, adding percentage points on profit, and setting your prices from there.
2. Competitor-based pricing	Quite simple—you look at your nearest competitors and base your prices on what they're charging. This is often a useful approach for startups. If you're unsure of your market value, see what your competitors are charging.
3. Value-based pricing	Involves a process of looking out towards your customers. Although time-consuming, if you ask your user base what they expect from your products, then you can charge them based on their feedback. This can

	sharpen up your market value and makes sure you're appealing to your audience.
4. Market penetration pricing	Here you'll ignore the real costs of your product, with the aim of choosing a competitive price. This can help you to launch onto the market and appeal to your audience immediately.
5. Premium pricing	Takes the approach that higher subscription costs means better quality. So, you charge above the market value for your product, with the explanation your product offers more to your audience than your competitors.
6. Skimming pricing	The opposite of the market penetration strategy. Here you make your subscription price high. The belief behind this is customer demand will decrease the longer your product is available. So, you can lower the subscription cost over time—that makes it increasingly competitive in the market.

Pricing models

Type of model	How does it work?
Flat-rate pricing	You provide one product, one set of features, and a set price. It's the simplest model and a straightforward way to sell your goods. • Advantages: It's easier to sell this way. You can focus all your marketing and sales at selling one offer. • Disadvantages: It's not very flexible, so you often have only one shot at winning over customers. So, you'll need to make that opening offer very tempting.
Usage-based pricing	Pay-as-you-go, essentially. The cost of your software is down to the amount a customer uses it. The more usage, the higher the bill. • Advantages: It's fair to use—price scales alongside the time spent on the software. This means a customer can judge their use of your software for the right monthly fee. The model also removes big upfront fees, while charging heavy cost users the right amount for their extra usage. • Disadvantages: It makes it harder to tell what customer costs will be. In turn, that makes it more difficult to predict your revenue.
Tiered pricing	Here you can offer packages featuring different features to cover different needs and budgets. • Advantages: You'll appeal to many buyer personas and maximize the revenue from each type. There's also a great chance to upsell, as customers can easily move to a better package if they need to.

	• Disadvantages: It can confuse some customers in the sales funnel, leaving them to drop out of the sale. Also, heavier use customers can easily exceed their use on a top tier package.
Per seat pricing	A popular choice thanks to its simplicity. Using this, a customer pays a fixed monthly price. If they add another user, then the price doubles. And third and it trebles. So, it's very clear to customers what their money buys them. • Advantages: It's easy to understand and helps customers calculate the costs. In turn, your revenue scales alongside your customer's continuous extra users. And that means you can easily predict your revenue. • Disadvantages: This model does let customers cheat with a single login between multiple colleagues. And that means it's easy for customers to churn at low cost when they're done with the software.
Per active user pricing	Advancing on from per seat pricing, this model encourages customers to sign on as many employees as possible. But the customer is only charged for active users at the end of a billing period.. • Advantages: Customers get a great deal and don't waste any money. They're also more inclined to roll out the software across the company, without any huge bills if it doesn't work out for them. • Disadvantages: For smaller businesses, the pricing model doesn't work as well for you. It's more effective with enterprise-level organizations.
Per feature pricing	You can use your software's features as a pricing model. Here you provide tiers with different features available. For example, the highest cost for all of

	your core features. The lowest charge for fewer. • Advantages: It's a convincing way to get customers to upgrade, as they're aware of what they're missing out on. It also saves your business resources if fewer customers use intensive features. • Disadvantages: It's tricky to get this right and you could easily get the balance of your packages wrong. You may also annoy paying customers by blocking them from key features.
Customizable pricing	Here you let customers customize their basic service package, adding on features as and when they need them. • Advantages: Proves popular with smaller businesses, so it can help your software gain popularity with SMEs. The flexibility is a proven way to encourage subscriptions. • Disadvantages: Revenue is uncertain as customers only choose certain features. And you risk devaluing your product by only offering certain features, rather than your full service.
Freemium	You could provide your software in limited form for free. Around that, you can offer paid packages for those who want to improve what your software offers. • Advantages: Can promote a high sign-up rate as customers try out your software. So, you get your foot in the door and have the potential for word of mouth to make you a success story. • Disadvantages: Obviously, that may all result in no revenue if customers don't start paying. Churn rates can also be high. And you risk devaluing what your business offers.

Freemium, but with ads	You use the freemium model, but rely on adverts to generate income. Then when a customer signs up to your paid service, you can remove the ads. • Advantages: Guarantees you'll have an income source while you wait for your software to gain more paying customers. • Disadvantages: You may annoy your customers with adverts, which could lead to high churn rates. As well as poor word of mouth.
Per storage user	A combination of tiered and usage-based, here customers pick from the amount of storage tiers. The more they need, the more you'll charge them. • Advantages: You charge customers for exactly what they're using, so you can maximize profits. You also ensure customers don't overuse their quote with unlimited storage space. • Disadvantages: There's a risk of excluding customers who don't fit into your storage tiers.