

7 Killer Pricing Strategies

for Subscription Businesses

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For a business venturing into the world of offering subscriptions for the first time, selecting the right pricing model is critical and can be the difference between maximizing customer value and leaving a major slice of revenue on the table. The key to success? Putting the right pricing strategy into action with agile subscription management capabilities behind it. When done right, pricing and packaging can be your competitive edge.

Here are 7 pricing strategies that work to acquire, maintain, and upsell subscription customers.

1

Try It, You'll Like It: Freemium + Upsell

With this strategy, a business offers a free version of its product or service. This is the hook. Once the customer is engaged, it offers a paid version with more features and customization. This is the upsell. The key to making this strategy work is to provide a positive experience with the free version while allowing the user to envision the further benefits they'd receive with the paid version. Equally important is to have a billing system that manages free trial customers with an easy mechanism to migrate them to a paid plan. Freemium + upsell is a common and effective strategy used by many online services like LinkedIn, Wix.com, and many gaming apps.

2

My Perfect Package: Multiple Editions

In this pricing strategy, different packages are offered at different price points, tailored to customer requirements. Package prices are based on factors such as number of licenses, usage, features, etc. To ensure success, your billing system will need to create highly customizable product offerings and support bundling while also managing recurring and usage-based pricing editions.

3

Waste Not, Want Not: Pay-As-You-Go

The pay-as-you go, or usage-based pricing strategy, has customers only paying for what they use. With this strategy, customers either pay in advance or pay in arrears. Be aware, though, that paying based on product usage has been shown to lower consumption compared to when a flat rate is charged. Since saving money can be a powerful motivator for consumers, it could be an ideal stand-alone differentiator for a subscription business. From a billing management perspective, you'll need to be able to collect usage information over a period of time without initiating a charge. It will also need to be able to reset usage back to at the end of every period.

4

Just in Case: Base + Overage

Much like the multiple editions strategy, this one lays out a base price for a defined package of offerings. However, if the customer goes over the parameters of the package, they're charged extra—usually a premium fee—based on the overage. You've probably seen this pricing strategy in action with mobile phone and internet companies when billing for data usage. To manage billing, your system will need to be able to distinguish the point at which overage starts, provide customizable pricing for different levels of overage and distinguish these charges on an invoice.

MINIMUM	REGULAR	SUGGESTED	ENTERPRISE
\$100	\$150	\$200	\$300
First Feature	First Feature	First Feature	First Feature
Second Feature	Second Feature	Second Feature	Second Feature
Third Feature	Third Feature	Third Feature	Third Feature
Fourth Feature	Fourth Feature	Fourth Feature	Fourth Feature
Fifth Feature	Fifth Feature	Fifth Feature	Fifth Feature
Request Offer	Request Offer	Request Offer	Request Offer

An example of a pricing page using multiple editions.

5 Manage My Growth: Variable Pricing

Variable pricing is a popular strategy used in the SaaS world. There are three types of variable pricing strategies:

- **Tiered pricing**, where every quantity and price range appears on an invoice. It's ideal for incorporating initial free units or providing discounts at higher quantity ranges.
- **Volume pricing**, where bulk purchases can be made. The per-unit price drops as more units are purchased. This method is ideal for encouraging customers to purchase higher amounts to benefit from a discount.
- **Stairstep pricing**, where all units are grouped into usage ranges and charged a single price. If a customer's usage is greater than the range they're in, they are bumped up automatically to the next price range. Here, the upsell usually takes care of itself.

6 Cheaper by the Dozen: Bundling

This strategy is referred to as either product bundling or a package deal. This is a strategy where a customer buys two or more products or services together at one attractive price instead of buying items separately at individual prices. Customers are motivated by saving money when buying a bundle.

To manage this pricing strategy, your billing system needs to be able to create customizable plans and control the pricing of products that are bundled under that plan.

7 How You Slice It: Segmentation

In a segmentation strategy, a company's product or service is priced according to "customer type", as defined by the company. This pricing strategy has proven to increase overall profit and revenues especially in industries with high fixed cost structures. Customers can be segmented by volume, attribute or feature, service offering, time of purchase, time used, etc. From a billing perspective, your system will need to set different attributes for customers and apply price changes or discounts to specific segments as needed. A simple example would be the price of a service for business use vs. personal use – even if the usage is the same.

The subscription industry is fast-paced and offers a range of benefits to both customers and businesses. Done right, the transition from traditional business models to a subscription business model means everyone wins. Businesses may need to test different billing strategies over time to find the best fit, but the search and experimentation are worth it. Selecting a robust subscription billing platform, coupled with a smart pricing strategy, sets you on a sure path to pricing and revenue success.

Stax Bill believes the automation of billing and payments is a business superpower. *Let's start your origin story.*

Stax Bill empowers subscription businesses to automate the repetitive so they can focus on the big picture.

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