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If You Are A SaaS Startup, Follow These Three Pricing Strategies

Startups, often and understandably, get their pricing strategy wrong in their early years.

It can be understandable (yet not necessarily justifiable), because VC-backed startups are usually pressured by their investors to grow fast. Growth is usually associated to an increased market share, and not necessarily to an increased profitability.

Profitability is not really the focus when investors believe that your upsides are so large that your future success can pay them back for their previous losses.

Look at UBER and Lyft, that recently went IPO despite being deeply unprofitable.

Getting your pricing right from the get-go is not only a great exercise to understand the position of your startup in the market, but also a way to build a habit to focus on your customers while maximizing your startup's profit as well as ensuring its long-term sustainability.

Below, three main approaches to determine prices for recurring-revenue SaaS startups.

Cost-Plus

You will have to calculate the overall cost of providing your service and add your target profit margins on top. Pretty basic, but not advisable for SaaS startups.

As your startup grows, you will want to aim for bigger markets with larger upsides. Your R&D, talent, infrastructure and unpredictable costs will increase dramatically. The benefits of the investment will reflect on your P/L in months, if not in years or in decades.

You can't keep adjusting your prices as your costs increase, unless you are introducing new features or lines of products.

While costs are incredibly important to monitor, the strategy makes little to no sense, in most case.

Competition-based

You will have to make a list of your closest competitors, see what they charge, then align or price slightly lower. You are up and running fast, but the strategy might not sustainable in the long run.

Most dangerously, you might crystallize your attention on your competitors, rather than on your customers' needs.

This strategy risks to turn you into a perpetual follower and, most dangerously, can jeopardize your chances of future dominance. After all, your competitors have been around

longer than you, have presumably more money than you and hold more market share than you.

You are mirroring your competitors' pricing strategy, that might have been put in place for specific reasons that might not apply to your case.

If your product is doing nothing different from your well-established competitors, you should ask yourself some questions. If you are selling to the same territory, to the same buyer persona, and you are mirroring competitors' prices, chances are that you should have been building a different product.

This is a lazy approach, because you don't really have a pricing strategy - you are following someone else's.

Yet, the strategy might be justified in a very competitive space with low product and service differentiation (think like SaaS commodities).

Value-based

My favorite.

You will have to price your product or service based on the value that you provide to your customer.

You will have to quantify the value of the problem that you solve, and charge customers accordingly. You will need to turn into an FBI-agent and get to know your customers inside-out. You will need to tweak your product until it overdelivers on customers' expectations.

Sounds like a lot of work? It is - and it is all worth it.

A value-based pricing strategy is the best way to really understand your ICP (Ideal Customer Profile), their motivation to buy your product or service and organize your product roadmap based on the value that you are expected to deliver.

This is, by far, the most difficult and most time-consuming approach.

Yet, probably the most effective pricing strategy for SaaS and recurring revenue-based startups. But also, the most fulfilling for the C-Suite, when mastered.

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