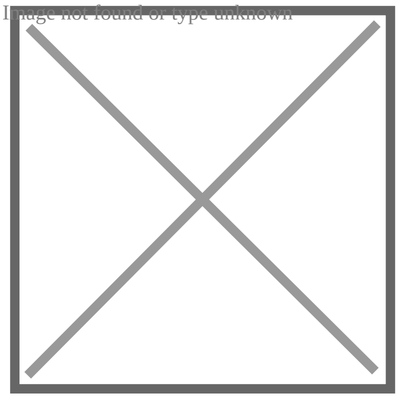

May I Please Pay You More

Description

WHY NET REVENUE RETENTION IS ONE OF THE MOST IMPORTANT SAAS METRICS AND HOW TO GET IT

I have spent the past 2 years embedded in the Venture Capital world to discover what investors really care about and what metrics they look for when investing in technology companies. One of the most consistently prized metrics is positive Net Revenue Retention (NRR). Net Revenue Retention (also referred to as negative net churn) means that your customers tend to grow once acquired, leading to additional valuable ARR. The Net in the equation means that the ARR growth from these growing customers is so great that it more than offsets the loss in ARR from the customers that you lose (churn). This is a powerful dynamic that really boosts a tech company’s ability to grow efficiently. My colleagues Byron Deeter and Kristina Shen talked about its importance in the Bessemer State of the Cloud report **here**. Our friends at Open View are so impressed with this metric, that they have coined an entirely new approach to growth called Product Led Growth – see more **here.** Finally, Hubsopt is speaking about this very dynamic when they talk about their new growth framework – The Flywheel – **here**.

The question then, is how do you get this magical Net Revenue Retention? I spend a lot of time with clients and portfolio companies addressing this specific question, and I always start with the challenge of How can we get our clients to say: “May I Please Pay You More”. This is at its core a product and pricing design challenge coupled with an ultimatum for fantastic product and service delivery. The following are some of the concepts I use with clients to help create this magical dynamic.

Product Pricing Tiers – Good/Better/Best. This is always a good place to start. Although there is a lot of good content written about raising price, that is often a one-trick pony and no one really likes to pay more for the same product. A far more mutually beneficial way to increase your Average Contract Value (ACV) is to break your product into differentiated tiers with different pricing for each. The lower level tier – Good – is the entry level product priced for low friction adoption at an attractive price point. It has enough features to have a great value proposition and to delight the customer enough that they are pre-disposed to wonder “What else can this product do to help me?” The answer to that question of course is: “Well I am so glad you asked, let me show you our Better or Best tier”. These tiers will have additional features and capabilities that are designed to create more value for your clients, and of course they are priced higher but deliver a great value proposition for the incremental cost. This is where the science comes in! Here are some elements to think about when designing your Product and Pricing Tiers:

Water Running Downhill. When I help companies design their Product Pricing Tiers, I always establish the goal of making customer product upgrades happen as naturally as *Water Running Downhill*. To do this, you need to create natural incentives for the customer to want to upgrade to a higher tier. This is done through: 1) Pricing of the key value metric – who doesn’t want a better price? And 2) Product features – Have you ever bought a certain car trim because you just had to have the leather seats or sunroof? Well then you know how easy it is to get customers to pay more for extra value added features – its as natural as water running downhill!

3 Tiered Tariff. We mentioned pricing as the first tool to design your Product/Pricing waterfall, but what type of pricing? The most obvious and widely used has historically been seat pricing. The more your customer grows, the more people and seat licenses they buy. Recently, more sophisticated pricing models have developed that do an even better job of getting the water to flow. I think the best pricing model today is the 3 Tiered Tariff. Tomasz Tunguz does a great job of explaining the science behind this model **here.** I like it due to its potential for virality and land and expand opportunity. The basic idea is to price each tier with an ample amount of baseline usage credits for the unit of value (Uses, analytical events, transactions processed, minutes used, surveys sent, etc…). The basic tier should give the customer more than they are likely to need right now. The benefit of this is that it feels like an unlimited plan. The customer can share the product with as many users as possible with minimal friction. More users and use cases will create more usage (which is why seat licensing is falling out of favor) and more value creation for the customer. At some point, the customer may exceed the basic unit amount for the subscription period. When that happens, no problem – they just roll into their per unit overage pricing that is part of the initial contract (The Third Tariff!). No negotiations, no trips to procurement…. It is already a part of the contract. Think about your cell phone. I can’t remember the last time I actually spoke with someone at AT&T about my contract. Yet, it seems like every other month my bill is higher due to more usage or international travel, etc… I don’t resent it. In fact, I am grateful that there is a nice flexible overage tier that handles my needs for the month, and then goes back to the baseline price. When a customer is consistently going over their base allotments, it is time to introduce them to a higher Product Tier, which of course provides a lower cost per unit of value and lower overage pricing but in exchange for a larger subscription commitment from the customer. “Ka-ching!”

Product Features – Virality vs. Value Delivery. The second key tool to design your packages has to do with what features to put in what product tier. If you have a good product team, you likely have a very long list of features competing for position on your Product Roadmap. The key here is to split them into features that create virality (features like share, link, connect & invite) and items that create additional value delivery beyond the core product like (offline access, auto-summarization, bells and whistles on your dashboard, enhanced analytics, etc…) The idea is to put the virality features that are likely to expand usage in your base tier. These features combined with a generous over-allotment of units in the base package will increase usage and value creation for the customer. The value-added features should be evaluated and put in the more advanced tiers. These are the sunroofs and leather seats of SaaS software. They are not needed, but they sure feel nice… and once a customer gets used to them, they are not going to want to live without them. These provide the “stickiness” to keep customers in the higher tiers.

The Equation – Making it a Win/Win. Evaluating how many units of value and what products to put in each tier is complex work, but also fun. There is an element of game-theory to it. When done well, it naturally leads a customer to maximize the value creation potential of your product and moves them to higher usage amounts or higher tiers. This is not manipulation, this needs to be a win/win. The customer should be getting more absolute value for each movement up your pricing tiers. If that equation holds, then it is only natural that they pay more for the higher tiers and should receive an equally compelling ROI despite the higher spend. You will know that you have the equation right when you have high NPS scores, low churn and of course… Strong Net Revenue Retention!

Even if you take all of these suggestions when designing your Product and Pricing, you may never actually hear the words “May I Please Pay Your More”. That’s ok. We haven’t either. The clients do say it however, it just sounds like the following:

- “I have a number of new agents/customers/data sources/partners that I need to onboard onto the platform.”
- “I’d love to use the platform even more, do you think I could get a discount if I committed to a larger usage amount?”
- “There is a message from the accounting department asking how they should bill for the additional usage that the client incurred on the platform over the base amount.”
- “Wow, that feature you just introduced is a fantastic time saver, how do I roll that out for all my users?”

Have you heard some of these ways that clients ask to pay you more? Add them to the comments below!

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