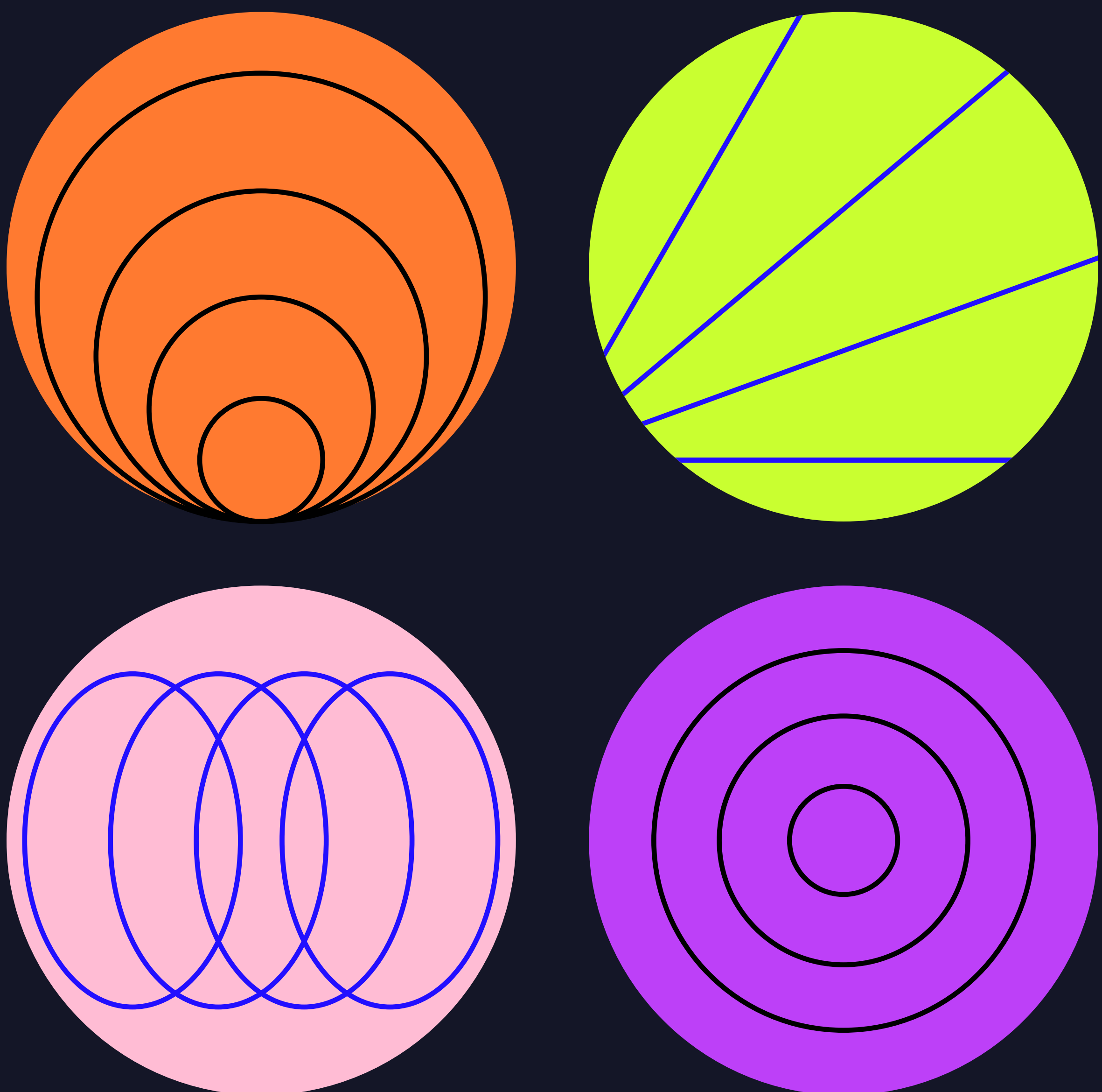
The usage based pricing playbook

- a strategic & tactical guide.



Togai

“Usage-based pricing is a great way to align the value that customers receive with the price they pay. It creates a win-win situation where customers pay for what they use, and SaaS companies generate revenue based on the actual value delivered."

Dharmesh Shah, the co-founder & CTO of HubSpot

Usage-based pricing is seemingly everywhere. Many industries and services have adopted usage-based pricing models to offer more flexible and cost-effective pricing options to customers. So it's no surprise that in recent years, the Software-as-a-Service (SaaS) industry is also keen on adopting some form of usage-based pricing.

Today, out of every 5 Saas companies, 3 have some form of usage-based component in their pricing.

Companies are moving away from cost-based thinking and towards usage-based, hybrid, and value-based models.

So if you are a revenue, pricing or product leader seeking to understand how to strategize and implement usage based pricing, then this handbook is for you.

By the end of this playbook, you'll know:

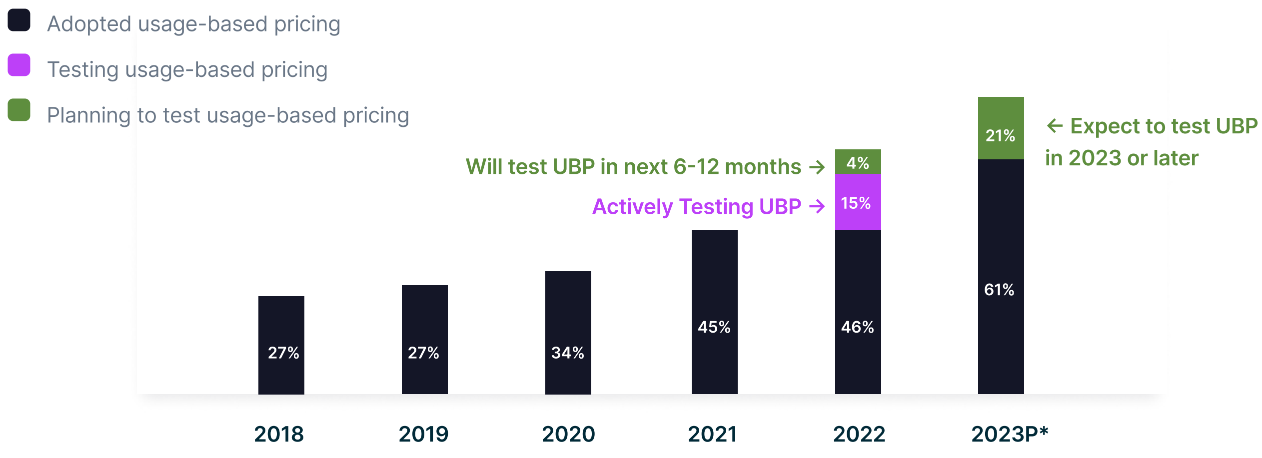
- What are the different flavours of usage based pricing?
- What are the benefits of usage based pricing?
- Is it the right fit for your business?
- 3 step framework to design the right usage based pricing strategy for you
- GTM Implementation checklist
- Technical implementation

What is usage-based pricing?

Usage-based pricing (otherwise referred to as consumption-based pricing, pay-per-use pricing, and pay-as-you-go pricing) is a pricing model where customers pay for a product or service based on how much they use it.

Usage-based pricing can be found across the SaaS stack, from infrastructure through applications. It started with infrastructure companies and expanded to encompass the middleware and application layer as well.

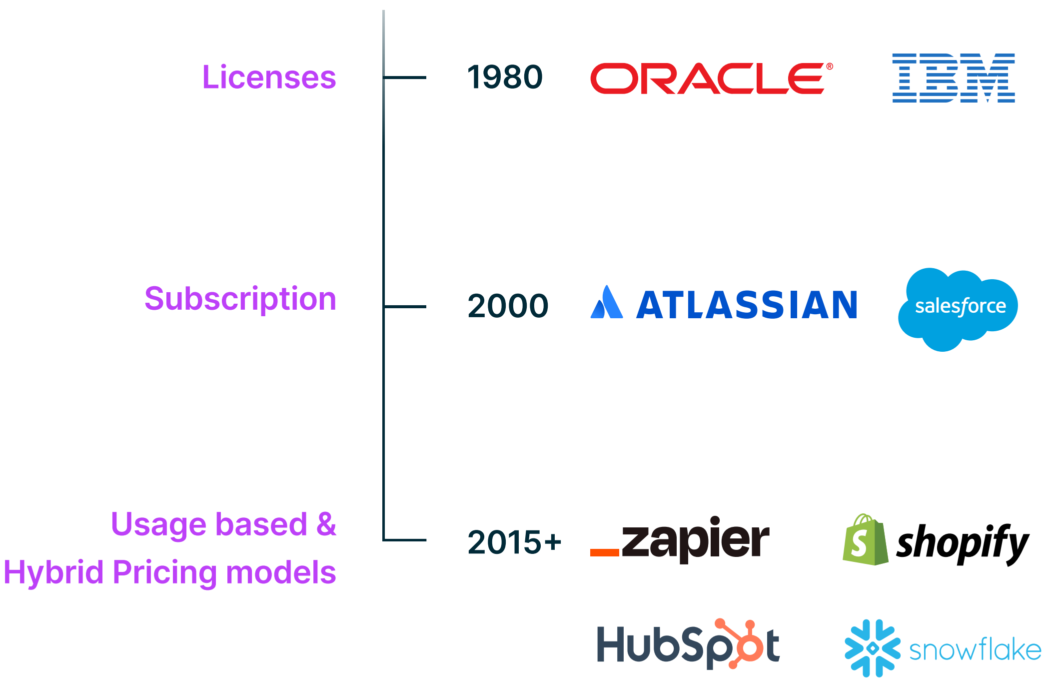
The State of Usage-Based Pricing by OpenView Partners asserts that 44% of SaaS companies surveyed reported using usage-based pricing. In fact, usage-based pricing is the second most popular pricing model after subscription-based pricing. It represents a significant increase from just a few years ago, indicating that usage-based pricing is becoming increasingly popular.



Usage-based Pricing Adoption Over Time

Evolution of Pricing

Subscription-based pricing has been the traditional model for SaaS companies, where customers pay a fixed fee for access to the software for a set period, usually monthly or annually. However, in recent years, usage-based pricing is becoming increasingly popular as a way to provide more value to customers and create more stable revenue streams for SaaS companies.



Why is this shift happening?

Buyer's Perspective

- Buying behaviour has changed, customers are looking for more flexible, transparent, and value-driven solutions.
- They only want to pay for what they use and not be locked in rigid contracts.

Seller's Perspective

- Pricing as a growth lever has gained a lot of momentum.
- A 1% change in price optimization leads to an average boost of 11.1% in profits.
- Your pricing growth lever is 7.5x more effective than simply focusing on acquiring more customers.
- Companies are looking for ways to differentiate themselves from their competitors
- Take a customer-centric approach; the focus is not only on delivering value to their customers rather than simply maximising revenue.
- The desire of SaaS companies to create more stable revenue streams

In recent years, even traditional subscription companies (like Salesforce, Box and Zoom) have started shifting towards usage-based pricing models.

Salesforce, a cloud-based customer relationship management (CRM) platform offers plans for a monthly fee. But it also offers usage-based pricing through add-ons such as Salesforce Inbox and Salesforce CPQ. These add-ons are priced per user per month. And usage is based on the number of actions taken within the add-on, such as the **number of emails sent or quotes generated**.

Box, a cloud content management and file-sharing service offers both subscription and usage-based pricing through their Box Platform product. Box Platform allows developers to integrate Box's services into their applications, and **pricing is based on the number of API requests** made by the application.

Similarly, Zoom, the popular video conferencing and web conferencing platform that grew popular during the pandemic, offers usage-based pricing through its Zoom Meetings platform. While Zoom Meetings is primarily sold as a subscription, customers can purchase add-ons such as Zoom Video Webinars and Zoom Rooms where **usage is based on the number of attendees or the number of rooms**, respectively.

The incorporation of usage-based pricing by traditional subscription-based companies is a reflection of the changing landscape of SaaS pricing models. These examples stand by what we believe: **Usage-based pricing is the future of pricing.**

A win-win for you and your customers

Benefits of UBP for businesses include:

- Make your product **more accessible** to customers, as they can start with a lower entry cost and scale up as their business needs grow.
- Increase **customer satisfaction and retention** due to the flexibility of usage-based pricing that accommodates changes in usage and business needs.
- Adjust pricing more easily as the value of the product increases, allowing you to **capture more revenue** without overcharging customers.
- **Boost net-dollar retention** by growing with customers as they realize the value and increase their product usage.
- Provide a **cost-effective choice** for customers seeking affordably-priced products, improving customer acquisition.
- Build stronger trust and better customer-business relationships with a transparency and fair pricing model.
- Track usage metrics and gain a greater understanding of your customers to uncover new opportunities for product innovation and pricing optimization.

Benefits of UBP for customers include:

- Track spending and make informed investment decisions
- Pay only for the value they receive, ensuring fairness and transparency without hidden costs
- Flexibility to upgrade or downgrade as needed, accommodating changes in business needs
- Try the product without committing to a long-term contract
- Lower upfront costs and total cost of ownership
- Better operational scalability and accuracy in billing structure, reducing the impact of unexpected spikes in demand.

Increased net revenue retention

You are in business to make profits. And usage-based pricing is a lever that you simply don't want to miss taking advantage of. UBP incentivizes customers to increase usage and provides a cost-effective option for heavy users. Businesses are encouraged to continuously improve their product to retain customers and encourage increased usage, leading to reduced churn and improved net revenue retention. This is unlike subscription-based pricing where customers are locked into a fixed pricing plan regardless of usage, limiting revenue growth from existing customers. An example of a successful transition to UBP is **Cloudflare Workers, which saw a 50% increase in revenue per customer and improved retention rates** after switching from a subscription-based to a usage-based pricing model.

Increased product adoption

Usage-based pricing (UBP) eliminates entry barriers for new customers, as they pay only for what they use. This is especially appealing to customers who are unsure about their usage needs. For existing customers, UBP encourages increased product usage and incentivizes them to take advantage of lower pricing for higher usage levels. In contrast, subscription-based pricing discourages frequent product usage because customers pay a fixed fee regardless of usage level. **Intercom**, a messaging platform, **experienced increased product adoption and customer sign-ups** after transitioning from a subscription-based to a UBP pricing model for its Inbox product, which charges customers based on the number of messages sent and received.

Getting your investors interested

Did you know that during the initial five years of operation, HubSpot offered subscription-based pricing between $3,000 and $18,000 annually, but encountered low customer retention and insufficient expansion revenue, resulting in a net revenue retention rate of 70%? In 2011, they introduced usage-based pricing, which allowed them to grow with their customers.

Hubspot isn't an exception. **Several public SaaS companies that have adopted usage-based pricing have shown strong growth because UBP allowed them to effectively land new customers, grow with them, and retain them over time.**

Company	What do they do?	Increase in revenue year-over-year in Q3 2020
Twilio	A cloud communications platform that offers usage-based pricing for its API services.	**57%**
Datadog	A monitoring and analytics platform that offers usage-based pricing for its infrastructure monitoring services	**51%**
Snowflake	A cloud data warehousing platform	**97%**
MongoDB	A document-oriented database program that offers usage-based pricing for its cloud-based database services.	**44%**
Elastic	A search and analytics engine	**49%**

Public SaaS companies with UBP have traded at a premium of **50% revenue multiple** compared to their peers, with several achieving over **130% net dollar retention.**

While there are potential risks associated with UBP, these numbers validate its credibility as the future.

Taking a customer centric-approach, always!

Today, every company aims to ensure they provide a great customer experience. Their product, sales, and support teams and processes are structured to ensure customers realize the immense value of the product and brand. So why not take a similar approach when it comes to pricing?

Usage-based pricing allows businesses to align their pricing with the actual value customers receive from the product. It can help one implement value-based pricing by considering how customers perceive the value of the product and their willingness to pay.

It allows customers to explore the product and decide if it fits their needs without worrying about price. Google Cloud Platform even offers $300+ in free usage credits for new developers to try their products. When more users who sign up become active, there is a chance for the business to grow with its customers.

Moreover, **the usage-based pricing model pairs well with the land-and-expand business model**. Since UBP allows for transparent pricing, the customer knows the value they will receive by increasing their usage over time. They learn that discounts are earned, not given. Additionally, It gives customers the flexibility to scale their usage up or down based on their needs and helps them budget more effectively.

Is usage-based pricing right for your business?

We saw the benefits that usage-based pricing provides for a business. Usage-based pricing can **reduce barriers to acquisition** and make pricing more relevant to customer outcomes. It can also limit expense risks on new SaaS purchases, support feature usage scaling, and monetize usage proportionally. Additionally, it can decrease payment loads on the non-utilization of a feature.

But deciding to make a move to change your pricing requires more thought and effort. While 85% of Openview's survey respondents will continue iterating on usage-based pricing, companies must share significant commonalities to succeed with UBP. Otherwise, they should steer clear of disrupting their existing pricing strategy.

Companies that have implemented product-led growth (PLG) have successfully utilized usage-based pricing, but sales-led and hybrid companies also tend to employ this model. Subscription-based businesses are adopting tiered-pricing models that enable low-ticket customers to onboard with basic features and gradually move up to higher tiers as their needs grow.

According to Openview, usage-based pricing works when your product is

Success-based

The value a customer derives from your product is directly tied to how much they use it. Because the customer behavior is simple: the more they use it, the more value they derive, and the more they are willing to pay for it. It aligns the business's success with its customer's success, making it a win-win situation for both parties.

Sticky

When your product is "sticky," it means that customers are highly engaged and continue to use the product over an extended period. Here’s stating the obvious: when a product is highly valuable to the customer, they are often willing to pay more for it.

A value-based pricing strategy could be adopted with the help of a usage-based pricing model. Usage-based pricing models provide a way to measure the value that customers are getting from the product. By tracking usage, companies can identify which features or aspects of the product are most valuable to customers and adjust the pricing accordingly.

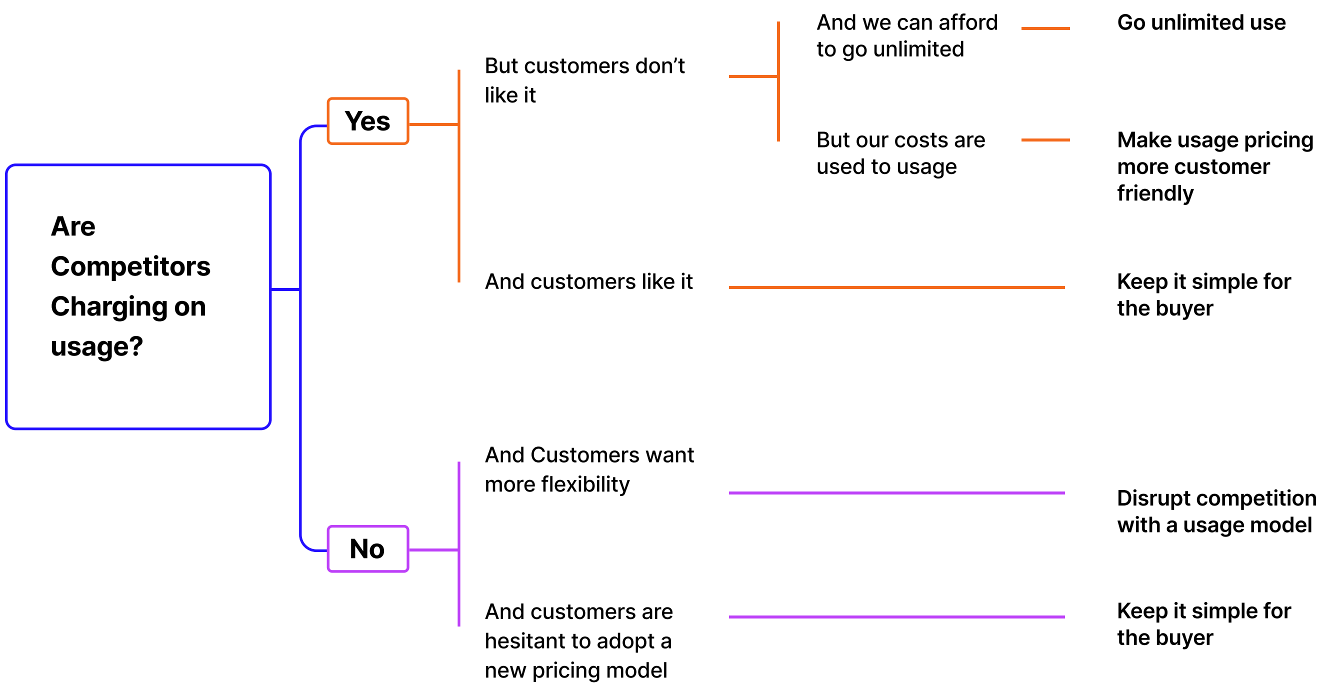
For example, take a project management tool that charges based on the number of projects managed. It offers a free trial period for its product, during which customers can use it as much as they want without paying. Once they start using it to manage their tasks, teams, and projects and see the value, they are bound to use it to manage other projects. This way, usage will continue to increase over time.

Customer-centric

When customers prefer the flexibility to only pay for what they use, then usage-based pricing is the way to go. One can scale their usage up or down as needed. To illustrate this with an example, consider a cloud storage provider that charges based on the amount of storage used. When customers only pay for the storage they need, it becomes more affordable and flexible.

Moreover, it's important to take your competitor's dynamics into consideration. Your competitors' pricing can give you an idea of what customers are willing to pay for similar services. It could also give insights into how your business can position itself in the market. If your competitors are using a different pricing model, such as flat-rate pricing, you may be able to differentiate your business by offering usage-based pricing.

Additionally, you could understand customer preferences. Say, your competitors are using usage-based pricing, it may be because customers prefer this pricing model for your industry.



Trends across different industries

Traditionally, usage-based pricing has been used in industries such as telecom, VoIP, or affiliate marketing. Since there was a strong alignment on trackable metrics, such as data or bandwidth usage, this type of pricing model worked. Today, more SaaS companies are adopting usage-based pricing (from infrastructure companies to companies across the tech stack, including middleware and applications). They are adopting either in a native form or blended with a tiered pricing model and overage charges for excess usage.

Businesses and products that are well-suited to usage-based pricing tend to have high-intensity usage growth and generate revenue based on usage. Moreover, usage-based pricing can provide a more flexible and cost-effective pricing structure for customers, while also allowing SaaS companies to align pricing with the actual value that customers derive from their products.

However, it requires robust data analytics capabilities and careful consideration of pricing structures to ensure that it is a viable and profitable pricing model for the SaaS business.

Let's take a look at some trends across different industries to understand the different models being adopted.

Analytics

In the Analytics category, the most popular model is the Usage Subscription model. This model involves multiple tiers of subscription with predetermined usage metrics. When customers reach the usage limits of their current tier, they can either upgrade to the next tier or find ways to work within their current limits.

Additionally, there are other pricing models in this category, such as Usage Pay-as-You-Go, Seat Based, and Usage Drawdown, that are popular.

Pricing Model	Companies
Usage Subscription	Mixpanel, Amplitude, Heap Analytics, Segment, Kissmetrics
Usage Pay-as-You-Go	Google Analytics, Chartio, Funnel.io, Rakam, Databox
Seat Based	Looker, Tableau, QlikView, Sisense, Yellowfin BI
Usage Drawdown	Optimizely, VWO, Crazy Egg, ClickTale, Decibel Insight

It's worth noting that some companies may use a blended pricing model that combines different pricing strategies. For example, some companies may offer a base fee for a certain level of usage and then charge additional fees based on usage over that level.

Collaboration & Productivity

Seat Based is the preferred pricing model in Collaboration & Productivity.

Here, customers purchase licenses for a fixed number of users, or "seats", determining the maximum number of people who can access the software.

Different companies may use different terms for a "seat" license, such as "agent", "member", or "individual."Usage Subscription and Usage Drawdown are alternative pricing models adopted in this category.

Pricing Model	Companies
Seat Based	Microsoft 365, Google Workspace, Zoom
Usage Subscription	Asana, Trello, Slack
Usage Drawdown	Dropbox

Artificial Intelligence

The most prevalent pricing model is Usage Pay as You Go. Other pricing models offered by AI companies include Usage Subscription, Seat Based, and Usage Drawdown.

Pricing Model	Companies
Usage Pay-as-You-Go	AWS AI Services, Microsoft Azure Cognitive Services
Seat Based	IBM Watson, Hugging Face
Usage Subscription	DataRobot, Algorithmia
Usage Drawdown	Google Cloud AI Platform

CRM

In the CRM category, the Seat Based pricing model is the most popular. It is followed by Usage Pay as You Go.

Pricing Model	Companies
Seat Based	Salesforce, Hubspot, pipedrive
Usage Pay-as-You-Go	Freshsales

Digital Advertising/ Marketing

The Tiered Based Pricing Model is the most popular pricing model used in the Digital Advertising/Marketing category. Other pricing models in this category include Usage Subscription, Seat Based, Flat, Usage Drawdown and Usage Pay as You Go.

Pricing Model	**Companies**
Tiered	Hubspot, Marketo, Mailchimp
Usage Pay-as-You-Go	Lumanu
Flat	Publicfast
Usage Subscription	Hubspot, Hootsuitel, SEMrush
Seat Based	Intellifluence, Sprout Social
Usage Drawdown	Refersion

E-Commerce

In the E-Commerce category, the Usage Pay as You Go pricing model is the most popular. It is followed by Usage Subscription, Usage Drawdown, and Tiered.

Pricing Model	Companies
Usage Pay-as-You-Go	Shiprocket, Airwallex
Usage Subscription	Chargebee, Zuora, Recurly
	Shopify, Magento, BigCommerce,
Tiered Usage Drawdown.	FastSpring, Paddle

Marketing Services

Usage Drawdown is the most prevalent pricing model in Marketing Services. Other pricing models offered in this category include Usage Subscription, Usage Pay as You Go, Tiered, and Seat-Based.

Pricing Model	Companies
Usage Drawdown	AdRoll
Tiered	Moz Pro, Yoast SEO
Usage Pay-as-You-Go	Releans
Usage Subscription	Active Campaign, HubSpot Marketing Hub, Marketo Engage
Seat Based	Sprout Social

Designing a usage-based pricing strategy

There are 3 parts to designing the right UBP strategy for your product:

Picking the right value metric	Picking the right pricing model
Pricing structure - overages, credits, commitments, volume discounts etc.	

Picking the right value metric

A value metric is a measurable unit that determines the price a customer pays for a product or service. It reflects the value a customer receives from using the product. It could be based on usage, number of users, data volume, features used, etc.

By setting the right value metric, businesses can intertwine their pricing with the value they are delivering to their customers.

So how do you pick the right metrics? OpenView provides a simple value-metric checklist to evaluate whether a value metric is effective for a SaaS company's pricing strategy. The checklist nudges you to pick a usage-based metric that meets the following criteria: value-based, flexible, scalable, predictable, and feasible.

To elaborate, here are some questions for you to ponder over:

Picking the right value metric

- Does the value metric align with the customer's success metric?
- Does it allow customers to choose and pay for their exact scope of usage?
- Can the value metric scale with the customer's usage?
- Does the value metric incentivize customers to adopt more of the product?
- Does it provide billing and budget predictability for customers large and small?
- Is the value metric easy to understand and communicate?
- Is the value metric aligned with the company's business model?
- Can the value metric differentiate between different customer segments?
- Is the value metric sustainable in the long term?
- Can the value metric be easily measured and reported on?
- Does the value metric align with the company's product roadmap?
- Is the value metric aligned with industry best practices?

Here are some examples of companies and their value metrics:

Value Metric	SaaS companies who have adopted them
Number of users	Slack
API requests	Clearbit
Number of events	Segment
Number of messages	Twilio
Bandwidth	Amazon Web Services
Compute usage	Azure
Revenue processed by their customers	Stripe
Compute usage	Zoom

Pick the pricing model

Let's look at the three most popular usage-based pricing models:

Pay-as-you-go

In this model, customers pay for a product or service as they use it and is common in industries such as cloud computing, where customers pay for the amount of data storage, computing power, or network bandwidth they use.

Examples include **Amazon Web Services, Microsoft Azure, and Google Cloud.**

This model is gaining popularity, with a quarter of businesses currently using a usage-based model having introduced it within the last year. The benefits of this model include

- Lower upfront costs
- The ability to charge customers who consume more
- Insights into customer usage
- Increased revenue as customer usage grows

Often, it is in the form of a consumption-based model where customers pay more as they use more of a particular resource. For example, customers who use AWS storage pay based on the size and duration of the objects they store.

Some businesses offer a credit-based model where customers purchase credits that can be exchanged for a service. **Mailchimp provides a credit-based pay-as-you-go plan**, where customers can buy email credits as required. Every time an email is sent, one email credit is used.

Tiered Pricing

In this type of pricing model, the pricing of a product or service is based on usage tiers. Customers pay different rates depending on the amount or level of usage they require.

"One of the biggest pricing challenges we face is determining the right pricing tiers for our product. We want to provide options for customers at different levels, but we don't want to make the decision process too complicated." - Steli Efti, CEO of Close.

Take the example of a mobile phone carrier. They might be offering the following tiered pricing model for data usage:

- Tier 1: Up to 5GB of data for $30 per month
- Tier 2: 5GB to 10GB of data for $50 per month
- Tier 3: 10GB to 20GB of data for $70 per month
- Tier 4: 20GB or more of data for $100 per month

A SaaS business can adopt this type of model and offer multiple tiers or levels of service, with each tier having different features, limitations, and pricing.

The major advantages of this model include

- Customers can choose the tier that best suits their needs and budget.
- Customers can pay for only what they need and avoid overpaying for unused resources.
- Customers can upgrade to higher tiers as their business grows and their usage increases.
- Businesses can maximise revenue by offering a range of options to customers and incentivizing them to upgrade to higher tiers.

Businesses that want to attract and retain customers by offering flexible pricing options or want to optimize revenue growth by offering scalable pricing options that match customer usage should consider this approach.

Usage Drawdown

This model allows customers to purchase a set amount of usage credits in advance, and then draw down on those credits as they use the SaaS product. Customers are charged based on their actual usage of the product, rather than a recurring fee. This model is attractive to customers who want to pre-pay for a certain amount of usage but want the flexibility to use it as they need.

For example, Mixpanel offers a usage drawdown plan that allows customers to pre-purchase a set amount of monthly events and then charges customers based on their actual usage of those events

Some advantages of adopting the usage drawdown pricing model are

- Customers get more flexibility and control over usage and spending
- Businesses can improve customer satisfaction as it appeals to those with fluctuating usage needs or unpredictable usage patterns.
- Businesses can increase revenue by incentivizing customers to use more of the product.

Pricing structure

The next step is to decide on the structure.
Here are some items you'll have to decide on:

- Will you provide volume discounts?
- How will you handle overages?
- Will you provide a credit based system? If yes, will you roll over unused credits?
- Will you want to have a flat fee component? Eg: A platform fee, set up fee etc
- Would you want to have a minimum commitment amount? If yes, would you want to provide a discount for higher commitments? Would they be "commit now, pay later"?

and so on.

When implementing usage-based pricing, some customers, especially enterprises may resist the change.

But be creative with your pricing and strategise ways to placate them. Here are some suggestions:

Offer a trial period

Allow enterprises to test the usage-based pricing model. This way enterprises can understand how the pricing model works and how it will affect their costs.

Provide a cost-saving analysis

Demonstrate the potential cost savings that can be achieved with usage-based pricing and help enterprises understand the financial benefits of the new pricing model.

Tailor pricing plans to meet the specific needs of the enterprise.

Offering **customized usage tiers, volume discounts, add-on services, and customized payment terms** can help meet the specific needs of the enterprise and can help encourage them to adopt usage pricing.

Provide educational resources for customers

As with any new change, there tends to be friction. Offer training and educational resources that could help customers understand how the pricing model works and how to optimize their usage to reduce costs.

Offer incentives, such as discounts or other perks

Incentives can improve the adoption of a usage-based pricing model. This can help encourage enterprises to try the pricing model. For example, **AWS offers a "Commit now, pay later" approach to pricing through its AWS Savings Plans program**. This program allows customers to commit to a specific amount of usage for a one- or three-year term and receive a discount on their usage charges in exchange for the commitment. Once a customer has committed, they receive a discount, depending on the level of commitment and the type of resource.

Get Creative

Offer a **flexible usage draw-down** where enterprises are given a set amount of usage credits that they can draw down over a period, such as a month or a year. The usage credits are pre-purchased at a discounted rate and can be used for any eligible services during the draw-down period. This can help customers adjust their usage based on their needs.

Here's an interesting example of **Snowflake**. **Customers, when they don't use their committed credits, can roll some ove**r, assuming the next year's commitment remains at least as large as the last one.

Allow customers to flex before their minimum

Be transparent with customers about any upcoming changes in pricing and how it may affect them. Additionally, designing the right kind of overage policies can help mitigate possible dissatisfaction. Some ways include **sending alerts to customers** when they approach certain usage thresholds, both in-app and via email, to help prevent them from exceeding their allocated limits. Providing **a grace period before charging for overage usage** or strategizing ways for customers to renew their contracts ahead of time at a higher commitment level in exchange for forgiveness of one-time overage usage can also help to alleviate customer dissatisfaction.

In doing so, you are **enhancing predictability in the purchasing process**, the avoidance of unexpected fees that were not budgeted for, and the relief from administrative burdens associated with small overage payments.

For businesses, it allows for a greater commitment and **increased customer lifetime value** (LTV). It also provides the sales teams with the opportunity to re-engage customers in an upsell.

GTM Implementation

Customer Support

Usage-based pricing can lead to customer confusion and disputes, as customers may not understand how charges are calculated. To solve this, companies like Azure have built custom customer support solutions that provide detailed usage reports and offer support through online chat, phone, and email.

Some ways to ramp up customer support include

- Communicate the pricing plan to customers proactively
- Make sure the pricing plan is easy to understand. Illustrate how usage affects the charges with examples.
- Provide self-service support options, such as an FAQ section or knowledge base, where customers can find answers to common questions about pricing.
- Provide **real-time usage monitoring tools**, such as dashboards or mobile apps, to help customers to track their usage and charges in real time.
- Proactively communicate with customers when they approach or exceed usage thresholds, providing recommendations to help them reduce their usage or avoid additional charges.
- Offer resources, such as webinars or online courses, to help customers understand the pricing plan and how to manage their usage.
- Regularly gather customer feedback to identify areas of confusion or dissatisfaction and address them promptly.

As with any new change, there tends to be friction. Offer training and educational resources that could help customers understand how the pricing model works and how to optimize their usage to reduce costs.

Sales

Get your team onboard and ensure they have a comprehensive understanding of the benefits and intricacies of usage-based pricing. Rather than focusing solely on the sale, shift the focus of your sales team towards providing value to the customer. This will require a deeper understanding of the customer's needs and priorities. Their focus should be on the initial subscription commitment as well as purchasing services that generate more revenue in the future.

The sales team's KPIs (Key Performance Indicators) may differ slightly from traditional pricing models.

Here are some KPIs that could be relevant

- New committed bookings
- Expansion revenue
- New customer acquisition rate
- Customer lifetime value (CLTV)
- Conversion rate
- The average revenue per user (ARPU)
- Time to close

Here is an example to illustrate. **Compensation at Snowflake now depends on both committed bookings and recognized consumption, which is paid out based on a customer's usage as it is earned.** The initial contracts are typically proof of concept, and as the customer's consumption or workloads increase, sales representatives continue to work with the accounts rather than handing them off.

Customer Success

Your customer success team's role typically shifts from a more reactive, support-oriented approach to a more proactive, consultative approach. This is because usage-based pricing models rely heavily on customer engagement and adoption in order to be successful. So your team should be asking how they help customers get the most value out of the product or service they are using.

They would need to spend more time working with customers to ensure that they are using the product or service as intended, and are getting the most value out of it. Moreover, they would have to closely monitor customer usage patterns in order to identify any potential issues or opportunities for improvement. Additionally, they would be looking for opportunities to upsell or cross-sell additional features or products and prevent churn by identifying at-risk customers and proactively addressing any issues or concerns they may have.

Their end goal should be organic usage-based expansion within existing use cases. Some KPIs that the customer success team could focus on include

- Customer engagement (or adoption of key features)
- Upsell and cross-sell revenue
- Customer churn rate
- Customer satisfaction score (CSAT)
- Renewal rate
- Time to onboard

Technical Implementation

“I would argue, for me atleast, pricing strategy is the easy part. Pricing operations is where you start pulling out your hair. ANd that’s where all you’re faced with is “no”. “No, we can’t do that.” “No we can’t do this”.

-Natalie Louie, Zuora

Here is a non-exhaustive list of challenges to account for while building an internal system:

Building for scale: Alleviating scalability issues is crucial. Consumption-based charges are tough to track at scale because they often come with calculation rules performed on a high volume of events.

Building for customization and configurabilty: Your different customer groups will have unique billing items and pricing requirements. Your system needs to allow easy customization through the tool's UI without requiring code deployment, so that pricing managers, sales, customer success and ops can iterate on pricing and make customizations without any dependency.

Building for reliability: This is paramount when dealing with financial transactions, as any unexpected behaviour could result in actual financial losses.

Apart from this, there are some other challenges to consider:

- Ensuring that usage event tracking does not disrupt the application flow, requiring high availability and low latency.
- Support new currencies, handle currency conversions, manage parallel pricing models for each plan, and integrate with relevant bill-collection services
- maintain idempotency at all times
- common practices in different regions (you can’t cancel or void invoices once created in most of Europe, but in the US, it’s common practice)

- Ensuring compliance with various rules and regulations of different regions
- Handle variations on company lifecycles when a user changes their plans
- Handle edge cases so you can support different people with different needs.
- Support integrations across multiple systems (like payment gateways, accounting systems, CRMs, and notifications) and keep them in sync with the metering & pricing updates.
- Track events from various sources only once and in a fault-tolerant manner.
- Provide provisions to make one-off changes to invoices
- Handle customer acquisition initiatives, and accommodate just-in-time changes.
- Have proper access control and approval mechanisms, and the system should account for bugs or outages in event sources
- Reporting and projections are essential for analyzing the impact of the features, monitoring team performance, and generating projections for the future.

Our CTO penned down his thoughts on why building a usage-based pricing tool is hard and shared his anecdotes of our experiences and those shared by other SaaS founders.

Check out the blog!

While it may look tempting to build an internal since you know what to build and you just have to go ahead and do it, here are the tradeoffs:

This internal tool will cost you approximately

- 500+ dev hours.
- Dozens of resources between product, engineering, finance, and revops. (Time and resources that could've been spent on roadmap items for your customers will be spent building and maintaining an internal tool.)
- Manual work that could lead to billing errors
- Disputes due to errors (overcharging)
- Revenue leakage due to errors (undercharging)

> “One of the biggest challenges in implementing usage-based pricing is building the necessary infrastructure to collect, analyze and report on usage data. This can be a complex process that requires significant investment in technology and resources."
>
> **- Raj Verma, CEO of MemSQL**

Moreover, it is not a set-and-forget kind of exercise. It's a life-long project. Running a UBP infrastructure requires a dedicated team of engineers to build, provision, manage, optimize, and secure the application and infrastructure.

This is where Togai can help

Togai is a plug and play monetization suite with all the capabilities you'll need to implement and optimize pricing for your products.

Out of the box solutions to meter, price, and bill your customers that let you go live with pricing changes in 1/10th the time.

With Togai, you can implement and optimize pricing without any dependencies. Simulate new pricing, track and meter usage, set up or schedule customized pricing models, automate your internal revenue workflows and get actionable insights on your pricing.

All with just a few clicks.

Here's what you get with Togai:

1 Time to market - Launch any pricing model in days, not months

Flexible to handle any pricing strategy that your CPQ or billing system does not

2 Drive 3x ROI within 6 months

Increase your LTV by providing Usage based pricing/hybrid pricing models for your customers

Drive profitability by scheduling new pricing changes for customers on grandfathered price plans

3 Zero code implementation depending on your use case

Togai can be plugin on top of your quote-to-cash stack or a replacement for different parts of your stack.

4 Free up your engineering team

Focus on customer features rather than internal tooling

5 Solution first approach

Caters to every pricing model that you have today and for the future

Bring your pricing strategy to life with Togai.

Use pricing as a growth lever to drive profits.

If you are curious and would like to take a look, sign up here.
Or you can schedule a demo!

Togai

www.togai.com