B2B SAAS PRICING PREDICTIONS FOR 2023

What SaaS pricing experts expect to see in the coming year, from hybrid pricing models and an emerging tech stack to the impact of inflation and tightening budgets.

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Metering, pricing, and analytics for SaaS

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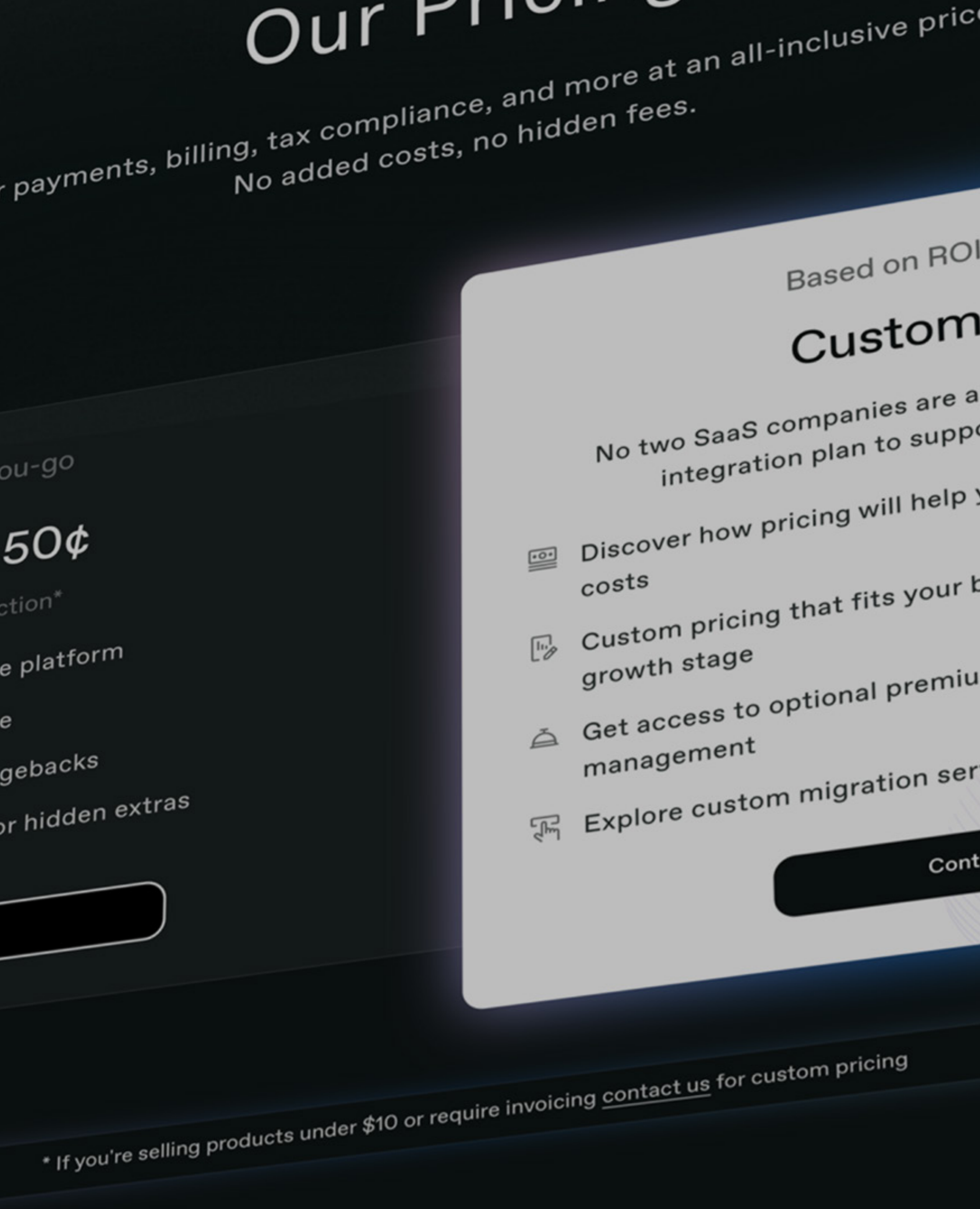
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THE PAST AND PRESENT OF B2B SAAS PRICING: HOW DID WE GET HERE?

Modern companies have endless options, tools, and techniques they could use to optimize pricing. So why don't they invest more time into getting it right?

Early SaaS pricing models were simple – companies paid a large amount upfront or had a simple recurring annual contract.

But modern pricing in B2B SaaS is much more varied: subscription, seat-based, usage-based, tiered, per feature, hybrid; not to mention the extras like overages and add-ons. Then you have the free options to acquire new customers and upsell as they grow: free trial, freemium, reverse trials... the number of combinations is seemingly endless.

Modern companies have endless options, tools, and techniques they could use to optimize pricing. So why don't they invest more time into getting it right?

One study from ProfitWell by Paddle found that companies spend just **6 hours** on their pricing strategy over the entire life of their business – not per year or per quarter, *total*.

This low figure is even more significant in a time of economic headwinds. Sure, SaaS has experienced downturns before – for instance, 2014, 2016, and briefly in 2020 at the start of the pandemic. But the challenges in 2023 will be of a different order: an impending recession, cratering stock valuations, and inflationary pressures never before experienced by modern software companies.

With this context in mind, m3ter wanted to understand what experts are expecting in B2B SaaS pricing over the coming year. We spoke with seven pricing experts from VCs, consultancies, and SaaS companies to hear their predictions and advice for 2023.

8 B2B SAAS PRICING PREDICTIONS FOR 2023 AND BEYOND

1 TACTICS THAT LOWER BARRIERS TO ENTRY FOR CUSTOMERS WILL BE PRIORITIZED IN 2023

As customers navigate the current economic headwinds, they will be more hesitant to take on new contracts, try new software, make usage or time commitments, and increase overall costs.

"Companies will need to make it as easy and low-risk as possible to become a customer."

Griffin Parry, CEO and Co-Founder, m3ter

"Pricing tactics that remove adoption friction will be key in 2023," says Griffin Parry, co-founder and CEO of m3ter. "The world is in 'hard mode' at the moment, so Sales conversations by their very nature are going to be more difficult. Companies will need to make it as easy and low-risk as possible to become a customer."

How will SaaS businesses lower barriers to entry for prospective customers?

PRODUCT-LED GROWTH (PLG) & PRODUCT-LED SALES

More than 60% of Cloud 100 companies have some sort of PLG motion already, according to Kyle Poyar, Partner at OpenView. PLG is a well-tested mode of widening your top-of-funnel by removing barriers to entry.

"Product-led sales is also really taking off, and has really interesting pricing implications within software. Part of the sales motion is done by the product and part is done by humans," Kyle says. "These strategies allow customers to start small; then, if the user loves your product, you can grow with them once their budget expands."

USAGE-BASED PRICING (UBP)

"UBP also allows customers to start small – with a low price – and grow into a product," says Andreas Panayiotou, Director of Pricing & Monetization at Notion Capital. New buyers see less risk in trying a UBP product because they know they'll only pay for what they use.

We'll likely see UBP and PLG continue to be paired together in 2023. "It's easier to attract customers with UBP plus PLG in a cost-constrained environment," says Todd Gardner, Managing Director of SaaS Advisors Ltd.

LOWER COMMITMENTS

The current environment has left customers more concerned with commitments. "In renewal conversations, SaaS companies I've spoken with are seeing their customers shortening the duration of their commitment to have more flexibility," says Todd. In some cases, customers are more concerned about commitments than per unit pricing.

"I think people are just really scared of buying stuff that they don't use. And in 2023 we'll likely see companies adapt by not asking for long commitments as much."

REVERSE TRIALS

With a reverse trial, SaaS companies offer a time-limited trial on one of their higher tier plans, and at the end the customer can convert or downgrade to a free basic version. This gives new users the best taste of your product and encourages them to actually use it during the trial period.

"There's always been a debate around whether Freemium or free trial models are better. Each has its pros and cons depending on whether you prioritize acquisition or conversion," Kyle says. "But the reverse trial actually allows folks to have the best of both worlds – sounds impossible, but somehow it seems to be happening."

2 USAGE-BASED PRICING WILL CONTINUE TO GROW, BUT IT'S A SPECTRUM – MANY ARE CHOOSING HYBRID PRICING MODELS

"In 10 years, I think less than 10% of companies will have no UBP components of their pricing."

James Wood, SVP, Insight Partners

According to OpenView's 2023 State of Usage-Based Pricing report, coming in January 2023, 46% of SaaS companies already have a UBP model, 15% are actively testing it, and 4% expect to test UBP in the next 6-12 months.

Within that 46% that already have a UBP model, the larger proportion is actually using some sort of hybrid: 31% operate with hybrid usage-based subscriptions, while 15% use largely usage-based or pay-as-you-go pricing ("pure play").

This highlights one of the most crucial UBP points for 2023: It's a spectrum, and most companies actually fall somewhere in the middle (hybrid). "There were a lot of companies for whom UBP was the easy and obvious answer – and they've already adopted it," says James Wood, SVP at Insight Partners. "What we're going to start seeing now are the instances where the line is less clear; those companies will make the switch to a hybrid model."

How large is this group of SaaS companies that will adopt some amount of UBP? According to James, it's pretty huge. "In 10 years, I think less than 10% of companies will have no UBP components of their pricing. Is that sea change going to happen all in the next year? Probably not – I think it's going to be the next four or five years where we see a gradual flow of more niche, complex hybrid models being developed."

Kyle agrees: "In the past, people got scared that it was one or the other – UBP or legacy pricing – or that it required a ton of changes to make the switch. Now it's clear that isn't true, especially with hybrid models."

3 THERE WILL BE MORE FOCUS ON THE PRICING TECH STACK TO SUPPORT PRICING INNOVATION AND FINOPS EFFICIENCY

"In the next year, private pricing will be used more often – and more creatively – so businesses will be looking for the capability to handle that in their billing stack."

Griffin Parry, CEO and Co-Founder, m3ter

According to Andreas, the strategic advice side of pricing has been around for a while, but we're now seeing more solutions on the engineering side. "Founders are trying to figure out the most efficient infrastructure that they need to put in place to be able to iterate pricing."

Kyle agrees: "We need a modern pricing tech stack to enable more rapid pricing iteration, and price testing of both subscription and usage models – because these models actually are going to exist side by side."

Griffin also foresees an increase in private pricing over the next year as companies try to prevent churn and says this will make the tech stack even more critical:

"In the next year, private pricing will be used more often – and more creatively – so businesses will be looking for the capability to handle that in their billing stack. Where they don't have proper tooling, we'll likely see chaotic situations and stressed finance teams, with lots of mistakes and money left on the table."

"With the increase in usage-based and private pricing, there will be demand from customers for better pricing visibility and predictability – which needs to be reflected in the tools they use, says Christian Owens, Founder and CEO of Paddle.

"The advancement – or need for advancement – of the tech stack is," says Christian, "a corollary of consumption based models actually increasing costs for businesses" – (as detailed further in the fourth prediction below).

4 MORE PEOPLE AND FUNCTIONS WILL BE INVOLVED IN PRICING ACROSS THE BUSINESS

"When people work together and stress test and use the stakeholder concerns, they have a better, more structured, and higher potential project at the end of it."

James Wood, SVP, Insight Partners

The increased interest in pricing in the coming year will likely grow the circle of those involved in its improvement. "It should've always been the case that more people across the business were involved in pricing," says James: "It's now becoming more cross-functional, and people are finally asking the tougher questions on pricing. CFOs, CMOs, and other key players are getting more involved."

When pricing is a C-suite topic, the organizations typically end up being much better at it, according to Nick Zarb, Partner at Simon-Kucher & Partners. "The topic of pricing should permeate the entire organization. Ideally, there should be an organizational setup that has multifunctional folks feeding into something like a monthly pricing committee."

Getting broad input is key, but not at the expense of an effective process, says James.

"For any pricing project, you're going to have a ton of people who are interested. If you're doing something major or strategic, that generally means making sure that everyone is okay with it – but that doesn't mean you should remove all risk and opportunity by running a 'Yes-Man' type of project. When people work together and stress test and use the stakeholder concerns, they have a better, more structured, and higher potential project at the end of it."

5 SOME SAAS COMPANIES WILL RAISE PRICES IN THE NEXT YEAR, BUT OTHERS WILL STRATEGICALLY CHOOSE NOT TO

61%

of SaaS companies adjusted their pricing in the last year.

Most people have probably experienced a SaaS price increase or adjustment for one or more of their tools in 2022. According to the 2022 OpenView SaaS Benchmarks Report, 61% of SaaS companies adjusted their pricing in the last year.

But the experts we spoke to were split on whether price increases specifically will be as prevalent in 2023 – and if they are, what the reasoning will be.

Inflation's impact on pricing

There's no question that inflation is having a major impact on the economy at large this year: it peaked at 9.1% in the US (June 2022) and 10.7% in the EU (October 2022) – and it won't be going away anytime soon. Plus, as Griffin pointed out, software companies have never had to operate in an inflationary environment before.

However, "just because inflation exists doesn't mean a price increase is right for software companies in 2023," said Kyle. "In fact, if your costs are driven by headcount and wage inflation and your headcount was growing last year – as was the case for many SaaS companies – you might have been more impacted by inflationary pressures last year versus this year."

Others are more supportive of the inflation argument for raising prices. According to James, "Inflation makes price increases almost completely defensible up to the percentage of inflation. But there's pressure to defend any increase above the rate of inflation – you have to prove why you're charging X percent more." James and Nick also advocated for having a CPI+ clause in your contracts to mitigate these challenges.

Prices will be revisited – and will rise in many cases – but with caveats

"Particularly if we are going into a recession, and if customers are a bit more cash-strapped, that means any price increase is going to need to be much more targeted"

Nick Zarb, Partner, Simon-Kucher & Partners

Kyle expects the number of companies adjusting prices in 2023 will be just as high as the 61% figure from the last year. "Software companies should be revisiting packaging and pricing fairly regularly, especially given how innovative most software startups are, and the rate at which they build features or go into new verticals and geographies."

Nick expects price increases to continue, but says they shouldn't just increase across the board. "Particularly if we are going into a recession, and if customers are a bit more cash-strapped, that means any price increase is going to need to be much more targeted. Sales will also need to be more creative in negotiations, looking for ways to minimize price decreases and maintain ARR."

For those that do raise prices, flexibility will be key next year, says Christian. "If you raise prices, it may also be prudent to introduce methods to take the sting off, like pay in advance for future usage to reduce costs." Measures like this will mean lower costs for customers and, fortunately, more predictable revenue for those implementing consumption/usage-based pricing, he adds, suggesting there's a fairly clear roadmap for software companies heading into 2023:

"This means that one, companies need to be set up with the infrastructure to support these models, two, they need to themselves be able to model future usage (so they can work collaboratively with a customer to define a pre-payment mode), and three, have the ability to track usage against a pre-payment (and possibly understand under/over utilisation – both from the perspective of understanding capacity, but also the knock-on impact on possible revenue/renewal and NRR)."

6 THERE WILL BE INCREASED FOCUS ON PROFITABILITY, AND PRICING WILL BE SEEN AS A KEY LEVER

In recent years, companies tended to be primarily focused on revenue growth, as that was the key indicator to unlock fundraising. "The last 20 years have been about getting to the next funding round, not profitability," says Andreas.

But the funding environment has changed. It's much harder to fundraise generally, so companies can't rely on it and need to have a plan to reach breakeven. And if they do raise a funding round, investors are relatively more interested in the fundamentals.

This means profitability and margin performance are more important, and pricing will be a key lever in 2023 and beyond.

The experts who work directly with SaaS founders have noticed an increase in awareness of pricing as a profit and revenue lever, with more founders recognizing that an investment in pricing can drive significant value for the business. "Pricing could be a revenue lever for us without having to develop a new product," said one founder Andreas spoke to.

> *"The last 20 years have been about getting to the next funding round, not profitability,"*
>
> **Andreas Panayiotou**, Director of Pricing & Monetization, Notion Capital,

7 COMPANIES WILL PRIORITIZE OVERAGE GOVERNANCE TO EXTRACT MORE VALUE

"As soon as belts started tightening, companies started to focus more on [overages] because it's just revenue left on the table."

James Wood, SVP, Insight Partners

The economic headwinds set interesting incentives for software companies. "It's difficult to raise funding, so people are looking to extend runway by cutting costs or extracting more value," says Griffin.

One way companies will extract more value is through better pricing discipline or overage governance, topics that James says companies will need to improve on in the coming year (particularly those with UBP elements in their model):

"There's been a lot of leakage in the system in past years – letting people go over their contract limits and not billing them for it. In a growth economy, you don't have the same impetus to fix that. As soon as belts started tightening, companies started to focus more on these instances because it's just revenue left on the table."

This can impact just about any SaaS business, Griffin says. "Companies might have pricing that doesn't look usage-based – by seat, for instance – but it has allowances, meaning heavy users pay more via overages. If you're trying to extract more value, actually enforcing those fences (limits) is a good way to do it without a total conversion to pure play UBP."

As James points out, you need (at the very least) a record of these overages. "If you're not showing the customer how much you're NOT charging them but could be, you lose it as a compelling event to upsell."

8 WITH CUSTOMERS CUTTING BACK, THERE WILL BE MORE FOCUS ON FLEXIBLE PRICING AND PREVENTING CHURN

SaaS companies aren't the only ones worried about cash – their customers are cutting back as well. "Pretty much every business will be trying to cut costs because of the economic conditions – it's not just software. So if you're anticipating that your customers will be cutting back wherever possible, how can you use pricing to minimize the overall effect of that?" says Griffin.

These cuts bring a fear of high churn, and a number of pricing-related factors may impact who has the highest churn rates in 2023.

First, price resilience is high for critical tooling and infrastructure (the must-haves), says Christian Owens, founder and CEO of Paddle. "As a general rule, if NPS is greater than 20, you have an opportunity to raise prices," he adds – the litmus the Paddle team uses. Here, it is the combination of a sticky product and the qualifier that customers are also happy with the product that ensures retention.

On the other side, "If you have a 'nice-to-have' solution, it would already be at risk of high churn whether you increase pricing or not," says James.

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Christian Owens, Founder and CEO, Paddle the sting off, like pay in advance for future usage to reduce costs," says Christian. Measures like this will mean lower costs for customers and, fortunately, more predictable revenue for those implementing consumption/usage-based pricing, he adds.

"But there are natural mitigators to that in terms of actual customer churn and Gross Dollar Retention – with UBP, there's no incentive to leave."

James Wood, SVP, Insight Partners

The specter of churn, and for those that do raise prices, flexibility will be key next year. As Griffin explains: "You're anticipating that your customers will be wanting to cut back, so how do you hold onto them? There are a variety of tactics: usage-based pricing, discounts for commitment, private pricing, etc. All will likely require some creativity from the Sales team and all will be more complex, so you'll need the tooling capability to manage it."

UBP and customer churn in 2023

Many of the experts we spoke with discussed expectations of churn among UBP businesses. Overall, most agreed that UBP will inhibit logo churn, but it could result in sharper declines in Net Revenue Retention (NRR).

With traditional pricing models, you'd need to offer the discount or lose the customer. UBP is more flexible. "The customer can naturally adjust by using less, without having to negotiate with – or even speak to – the vendor," says Griffin. "UBP provides a natural pressure valve."

However, those we spoke with also recognize the challenges of UBP during a time of economic headwinds. Todd has done a lot of analysis on the relationship between NRR and UBP during periods of both growth and recession:

"We know from data a year ago that NRR is higher for UBP businesses in general. In 2023, we anticipate that NRR advantage will shrink compared to the subscription model now that the economy is slowing down. But there are natural mitigators to that in terms of actual customer churn and Gross Dollar Retention – with UBP, there's no incentive to leave."

PRICING ADVICE FOR B2B SAAS BUSINESSES IN 2023

With all these predictions in mind, we asked the contributors to offer some advice for SaaS companies navigating the 2023 pricing landscape:

1. **"Invest in having a data-driven understanding of your pipeline and your customer journey holistically** – from acquisition and conversion to win rates and churn. That should include pricing-related KPIs like average deal size, retention rate by package or price point, percentage of deals you lose due to price, etc. In an uncertain environment, focus on what you can control: understanding where you are today and recognizing what's changed in your customer journey." - Kyle Poyar, Partner at OpenView Partners

2. "If I was running a SaaS business, I would **inject more empathy into the pricing process** from a customer perspective. You can gain goodwill and a million other things. It's just so much more cost-effective to retain revenue than to try to recapture it." - Todd Gardner, Managing Director at SaaS Advisors Ltd.

3. **"Take a look at how much pricing power you have as a company.** If you haven't touched your pricing for three or four years – and you've built up a large amount of pricing power through product improvements, delivering value to customers, having some really successful use cases, etc. – then it's time to review how to completely change the game on your pricing, whether that means moving to UBP, PLG, or something else." - James Wood, SVP at Insight Partners

4. **"Protect yourself from inflation.** Make sure you have the ability to increase prices, get inflation-linked indices in all your contracts, don't sign multi-year deals with flat

pricing, build in escalators, etc." - Andreas Panayiotou, Director of Pricing & Monetisation at Notion Capital

5. "Try to understand **how to maximize NRR amongst your customer base**, both in terms of identifying the best customers with the potential to grow the fastest, but also identifying high churn risk customers that you'll need to pay special attention to, manage throughout their lifecycle, help them expand, etc. And you'll need the right data to help you predict those things." - Nick Zarb, Partner at Simon-Kucher & Partners

6. **"Pricing should be a tool you use in 2023 to achieve key revenue goals.** When times were good, everyone was focused on growth as their first priority, and pricing just had to be 'good enough'. But the fundamentals are more important now, and many businesses are in survival mode. If you weren't already, it's time for innovation and experimentation in pricing." - Griffin Parry, co-founder and CEO of m3ter

7. "One way for UBP businesses to **give customers more predictability** is to do something similar to AWS' Reserved Instances – customers effectively commit to a certain amount of spend, and often pre-pay, in order to lock-in that capacity. It's still consumption based, but you model out your probable consumption in advance, and then pre-commit to that amount." - Christian Owens, founder and CEO of Paddle.

ABOUT M3TER

HELPING SAAS COMPANIES CAPTURE THEIR TRUE VALUE BY PRICING AND SELLING BETTER.

We help SaaS companies deploy and manage usage-based pricing of any complexity and provide analytics tools to explore usage, revenue, profit, and forecasted outcomes. The impact is automated and error-free billing operations, an improved customer experience, better sales performance, and ultimately improved profitability.

To learn more about Usage-based pricing visit https://www.m3ter.com/blog/guide-to-usage-based-pricing