



The Ultimate Guide to Usage-Based Pricing

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As the software industry continues advancing further from simply providing software towards delivering a service, we're seeing increased interest in usage-based pricing (UBP; sometimes called consumption-based pricing).

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.

In this guide, we'll cover everything you need to know about usage-based pricing:

- ▶ What is usage-based pricing?
- ▶ Pure UBP vs. hybrid pricing
- ▶ Examples of UBP
- ▶ Why use usage-based pricing?
- ▶ Benefits of usage-based pricing
- ▶ Impact on NRR
- ▶ Impact on churn
- ▶ How does UBP impact GTM and operations?
- ▶ How do you know if UBP is right for your SaaS business?
- ▶ Implementing UBP
- ▶ The tech stack you need to implement UBP
- ▶ How to evaluate UBP vendors for integrations
- ▶ Handling customer objections if they arise
- ▶ Where to find UBP resources
- ▶ How m3ter does UBP

What is usage-based pricing?

With usage-based pricing, the price a customer pays for a service is based on their consumption (or usage). So, instead of paying for how much they expect to need (an estimate of capacity), they only have to pay for how much they actually use.

UBP has been around for a long time in other contexts, for example with telecommunications, utilities, and logistics. Its application with B2B software, however, is newer.

There are a variety of ways for UBP to be implemented. Some clearer examples range from charging based on resources consumed to the number of leads generated to the number of tasks or API calls. Other pricing models take more of a hybrid approach, layering UBP on top of their feature-based tiers or 'seat' fees.

One of the predictions in our [2023 B2B SaaS Pricing Predictions Report](#) was that UBP will continue to grow, but many are choosing these hybrid pricing models. Read all the predictions from SaaS pricing experts [here](#).

Now, let's cover a few examples of usage-based pricing.

Examples of UBP

Usage-based pricing can come in many forms, depending on factors like the company itself, the product or service, customer personas, usage patterns, economic conditions, and more. Here's a quick list of illustrative UBP techniques:

1. Linking the price to consumption of resources – This strategy is usually utilized lower in the stack where the product is the resource itself (e.g., AWS, Snowflake, MongoDB) or a service that obviously consumes a lot of resources (e.g., Datadog or Sumo Logic).
2. Linking the price to product impact – In this strategy, the customer's price is based on the impact the product had on their business. This can be effective as it links pricing to the customer's success ("mutually assured success", if you will). Examples include Stripe and Paddle pricing based on a share of revenue.
3. Discounting based on volume – Offering discounts to customers based on volume can encourage more usage, as it's rewarding these customers with declining marginal costs of use (the opposite of diminishing returns). Example: Confluence.
4. Trading discounts for commitments – In this strategy, companies will decrease the variable usage price in exchange for the customer committing to a specified level of spend. For example, AWS Reserved Instances, Savings Plans, and the Enterprise Discount Program all trade discounts for usage commitments.
5. Deploying hybrid models – UBP isn't always all or nothing; some companies use a hybrid model, mixing some aspects of UBP into traditional pricing models. For example, the company might have per-seat or tier-based pricing with the addition of usage limits (or extra fees for high consumption).

You can read about all these usage-based pricing examples in-depth in our blog, [5 usage-based pricing examples to improve your pricing strategy](#).

Why use usage-based pricing?

Usage-based pricing works particularly well when it links costs to value received and allows fees to scale as customers grow. UBP isn't right for every business, but for those it works well for, the benefits are significant.

Benefits of usage-based pricing

Some benefits of UBP include:

- ▶ Easier adoption
- ▶ Costless upsell
- ▶ Higher customer satisfaction
- ▶ Better margin control
- ▶ Higher NRR

Impact on NRR

The impact of usage-based pricing on Net Revenue Retention (NRR; the most important metric for SaaS businesses) is notable. In fact, according to SaaS expert Todd Gardner, [UBP is the best way to drive Net Revenue Retention](#), which in turn [positively impacts valuation](#).

In Todd's guest post on the m3ter blog, he dives into some models on how UBP can impact NRR over 10 years. His final assertion is this:

Usage-based pricing deserves serious exploration by all management teams running SaaS companies."

Impact on churn

Another guest post from Todd focused on customer churn – more specifically, how not all [churn is the same](#). This is especially relevant in a time of cost cutting and uncertainty in SaaS.

According to Todd, UBP reduces overall churn in the long term because it automatically scales down cost, making it less likely customers will fully cancel.

However, consumption models are more susceptible to shrinkage than other pricing models, so there are a variety of factors to consider during economic downturns.

How does UBP impact GTM and operations?

Since UBP's application to B2B software is newer, it's important to consider the implications of the pricing model for [operational and Go-To-Market \(GTM\) capabilities](#). Here are four major areas affected by UBP, all of which come back to the data issue:

1. Billing ops – Accurate invoicing can be a challenge with UBP, especially if your sales team often does customized pricing for a significant portion of the customer base. This is because you need to bring usage data with pricing terms to calculate the amount that goes on a customer's bill. Many organizations have spreadsheet-based systems for billing, which are time-consuming, prone to errors, difficult to change, and not scalable. This process should be automated, which will help your Finance, Sales, and Success teams.
2. Customer experience – With UBP, pricing is part of the product itself, i.e. customers need to understand their consumption and how that will translate to their spending. This requires transparency and trust, and a once-per-month invoice won't cut it. Customers will want information on demand (e.g., a running total and a forecast for their monthly bill).
3. Sales & customer success performance – Customer-facing team members need usage data for inbound billing enquiries, but also to drive revenue growth (i.e. to respond to usage signals and be proactive about encouraging further adoption, upselling, or securing commitments).
4. Reporting & KPIs – UBP has demanding requirements for reporting oriented on the customer and their usage. For example: visibility into spending, usage, costs of service, unit economics, and who the outliers are.

How do you know if UBP is right for your SaaS business?

Another guest post by Todd Gardner focuses on deciding whether usage-based pricing is right for your SaaS business. The short answer is that it depends – UBP is highly effective for many (as can be seen in the benefits and NRR impact discussed above), but it might not be the right pricing model for others. Understanding where UBP has been historically successful can help companies assess the pros and cons of deploying a usage-based pricing model.

Based on Todd's research and conversations with SaaS experts, here are some company and product characteristics that lend themselves to usage-based pricing:

1. Lower-in-the-stack products
2. Other high COGS solutions
3. Products linked to revenue
4. Products capable of usage intensity growth
5. Self-provisioning

You can read Todd's full analysis in his guest post, [Is Usage-Based Pricing Right for My SaaS Business?](#)

m3ter has also started creating resources specific to certain industries and their adoption of UBP. Check out this post to learn more: [Why are Database Companies Moving Toward Usage-Based Pricing?](#)

Implementing UBP

The tech stack you need to implement UBP

m3ter's stance on the tech stack needed for UBP implementation is simple: **your existing systems don't need to change, they just need better access to data.**

So what's needed? According to Marek Rubasinski (m3ter's VP of Business Development)

A new category of data infrastructure tooling built with cloud-native, cloud-scale, developer-first capabilities that elegantly captures and rates customer data while allowing it to be federated across systems and users to make the most of it."

Billing might be the original driver for tracking customer usage, but in order to glean information about customer engagement and profitability, other systems require that spend and usage data as well. Learn more in Marek's post on the m3ter blog, [The Tech Stack for Usage-Based Pricing.](#)

Evaluating UBP vendors for integrations

When choosing a solution to deploy and manage your UBP model, you'll need to consider many factors, including integrations – how the platform will fit within your existing software stack. Some key factors to look for when searching for a UBP solution include:

- ▶ Flexible, out-of-the-box integrations requiring minimal code
- ▶ Bi-directional integration sync
- ▶ Dedicated internal integration team
- ▶ Ability to test before you buy
- ▶ Developer-first approach

Learn more about these evaluation areas on the m3ter blog: [5 Tips to Evaluate Usage-Based Pricing Vendors for Integrations](#).

Selecting the best pricing metric

According to a 2021 survey from Coatue Partners, the hardest part of deploying usage-based pricing is finding the right metric. This can be difficult for a variety of reasons: some companies have used UBP since the beginning, and others might be using UBP even if it's not the right fit for their business. (Read “Is Usage-Based Pricing Right for My SaaS Business?” for more on this.)

No matter how you started using UBP, choosing the right metric is crucial. To help, pricing experts Todd Gardner (Managing Director at SaaS Advisors Ltd.) and James Wood (Insight Partners) put together a blog on [choosing the right pricing metric](#), including a metric selection template you can download.

Go even deeper to prepare finance teams with this blog: [Implementing Usage-Based Pricing: What Your Financial Teams Need to Know](#).

Handling customer objections if/when they arise

When implementing a usage-based pricing model, you may be wondering how your customers are going to take the change. Remember: the core value proposition for UBP is very compelling; you just need to know how to respond to customer objections if they do arise. Objections typically fall into two categories:

1. Control and predictability
2. Incompatibility with organizational models and budgeting approaches

There are mitigations that can be used to respond to and manage both of these categories, for instance simplifying pricing, choosing a pricing metric with strong ties to value, prioritizing transparency, etc.

Read our full breakdown on the m3ter blog: [How to handle customer objections to usage-based pricing](#).

Where to find UBP resources

Usage-based pricing is a hot topic across the SaaS industry and in many other verticals, so you might be wondering where to look for accurate, insightful resources. We've got you covered with our usage-based pricing reading list, which includes:

- ▶ Introductory guides & explainers to usage-based pricing
- ▶ Usage-based pricing opportunities
- ▶ Success stories
- ▶ Implementation challenges
- ▶ Tools and how-to guides

We're always adding to our reading list, so let us know if there's a new resource that should be included.

How m3ter does UBP

m3ter is a metering and pricing engine for SaaS companies that launched from stealth in February 2022. The origin story of the company runs from co-founders Griffin Parry and John Griffin's first company, GameSparks, through their acquisition by AWS, to building m3ter with the goal of enabling other companies to intelligently deploy and manage usage-based pricing.

1. We have five key points of view regarding how best to deploy UBP:
2. Make existing systems work for UBP
3. Enable automation
4. Assume real-time
5. Don't underestimate pricing creativity
6. Measure more to power advanced analytics

Read the full manifesto on [m3ter's distinctive approach to usage-based pricing](#) on our blog.

Deploying UBP with m3ter

As you decide whether to implement a usage-based pricing strategy and seek to deploy and manage it effectively, consider trying m3ter. Learn more about our [products](#) or [contact us](#).