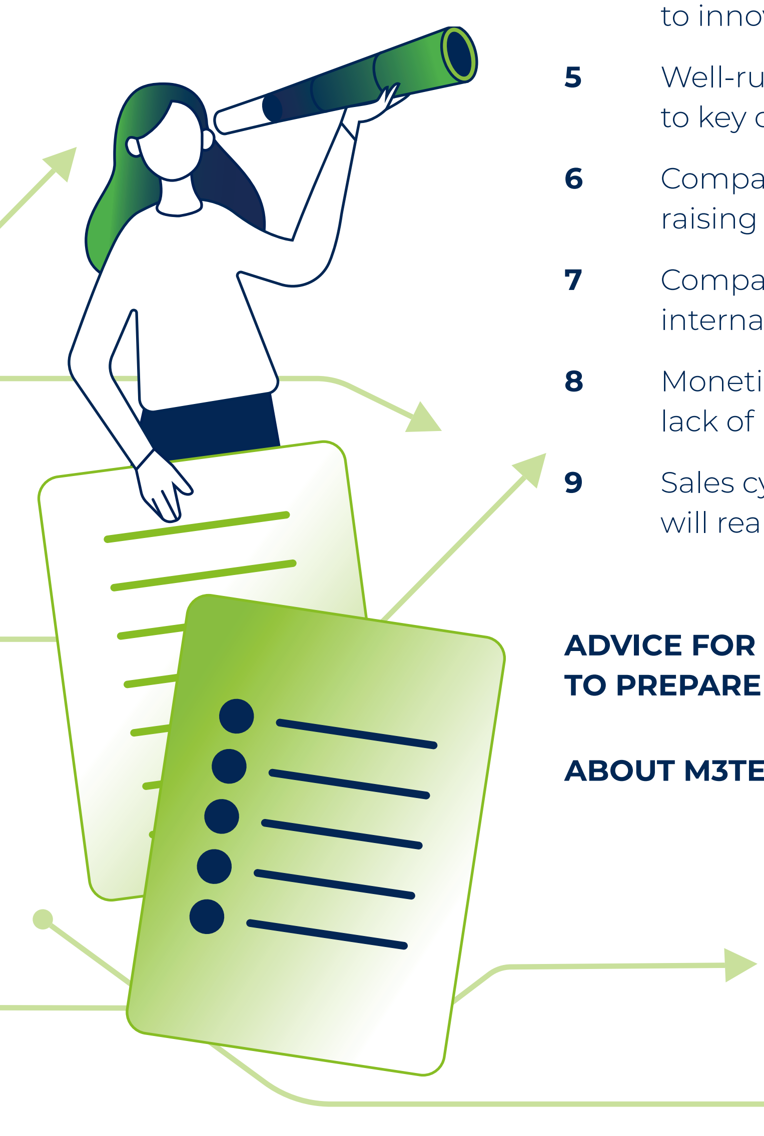
# B2B Software Pricing Predictions for 2024

Brought
to you by

m3ter

# Table of contents





# What’s Next for B2B Software Pricing?

2023 was a year of contradictions in software. Some predicted a recession and slashed costs across the board. Others were more optimistic and continue to be bullish long-term. Growth rates in general slowed down and fundraising successes were harder to come by. At the same time, the rapid growth of Generative AI since the launch of ChatGPT in late 2022 drove industry-wide product innovation, both with existing providers and AI-native new entrants, who bucked the negative growth trends that were dragging others down.

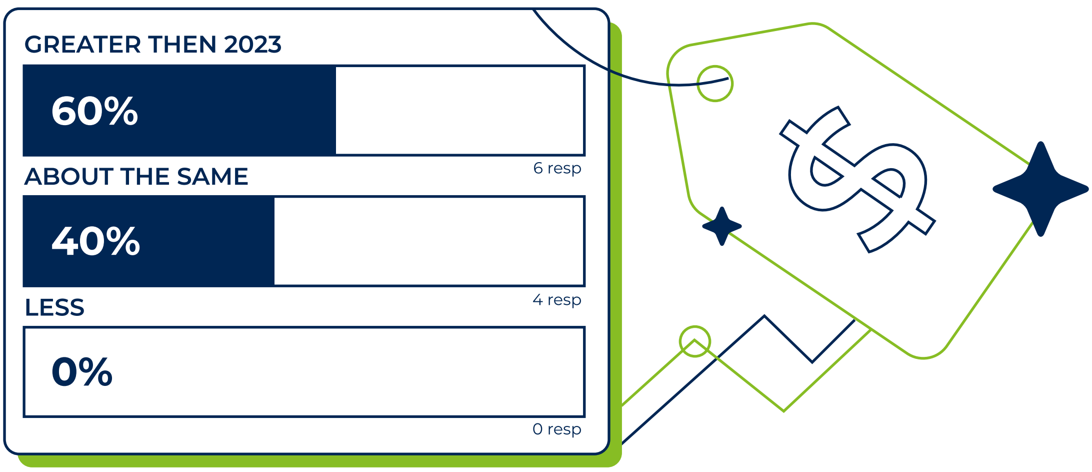
And amidst all of this was the never-ending debate: **What should software companies do about pricing?** As the focus shifts toward efficiency and away from growth at any cost, it’s becoming clearer that pricing is a key lever not all companies are taking full advantage of, that pricing innovation still has a long way to go, and that it will continue to be a growing priority for 2024.

With this context in mind,  m3ter brings you our **second annual software pricing predictions report**. We interviewed ten experts in software pricing to hear their predictions and advice for B2B software companies in 2024.

## How much of a priority will pricing be in 2024?

*10 out of 10 answered*

***6 resp. (60%) said** “Greater than 2023” **and 4 resp. (40%) said** “About the same”.*



# Contributors

As the basis for this report, we interviewed ten software pricing experts who are from multiple markets and connected to the industry in varying ways, from SaaS founders and pricing leaders to startup advisors and VC investors. Our goal was to join many different perspectives together, ensuring that each prediction was backed up by observations, experiences and data from multiple experts in the field.

## Many thanks to each of our contributors for 2024:

**Ariela Bitran**
Director of Pricing Strategy,
Chargebee

**Andreas Panayiotou**
Director of Pricing and Monetization,
Notion Capital

**Tanya Bragin**
VP Product,
ClickHouse

**Griffin Parry**
CEO and Co-Founder,
m3ter

**Melissa Donohoe**
Investor,
Notion Capital

**Eli Potter**
VP, Sales & CS, CIO as a Service,
Insight Partners

**Todd Gardner**
Managing Director,
SaaS Advisors

**Kyle Poyar**
Operating Partner,
OpenView

**Christian Owens**
Founder and Executive Chairman,
Paddle

**James Wood**
Product and Pricing Strategy Lead,
m3ter

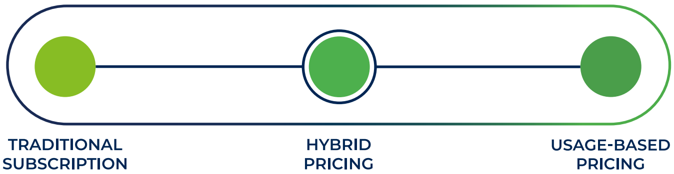
# 9

# B2B Software Pricing Predictions

## for 2024 and Beyond

# Companies will continue moving toward **hybrid pricing**

One of the hottest topics in software this year was the pricing spectrum, with pricing designs ranging from traditional subscriptions to pure usage-based pricing (UBP). Most of our experts agreed that the middle of that range, typically called hybrid pricing, is where most companies are headed.




But this shift *toward* hybrid goes in two directions. Most commonly, it's moving from subscription and introducing usage-based elements, according to **Griffin Parry**, m3ter CEO and co-founder. It also goes in the other direction, when companies with pure usage models want to introduce more predictability, through commitments or fixed elements.

**James Wood**, product and pricing strategy lead at m3ter, believes that in 2024 and the years to come, most usage-based companies – across go-to-market motions – will probably end up with "a usage-based subscription, but with overages that allow people to expand. This has benefits not only in capturing repeatable ARR and preventing volatility, but also in encouraging customers to make the most of their allowances and use the product, which can lead to expansion benefits as well."

## Long-term prediction

**Kyle Poyar, Operating Partner, OpenView**

*"I tend to find that hybrid models are a great transition pricing spot, but ultimately there's only so much you can do without overcomplicating things for your customers. There was certainly more hybrid pricing over the last two years as folks looked for relatively fast ways to roll out AI and other new product monetization without disrupting their existing pricing model.*

*I'm keeping an eye on the creativity of emerging players – like AI-native companies without an installed base – to see the traction they have with more disruptive pricing models. I think that will point to where the destination is on the spectrum."*

## 2023 prediction rewind

Hybrid was a hot topic last year, as well – and most interviewees think that will continue. *"In 10 years, I think 90% of companies will have UBP components of their pricing. Is that sea change going to happen all in [2023]? 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."*

**James Wood, Product and Pricing Strategy Lead, m3ter**

# 2 Pricing and packaging innovation will demand a thoughtful, creative approach

The complexity that arises from a hybrid pricing strategy, or from doing any sort of pricing and packaging redesign, will require companies to be more intentional in 2024. According to **Christian Owens**, founder and executive chairman of Paddle, there's been quite a divide between how companies have adopted usage-based pricing elements. They've seen an avalanche of companies trying to adopt it with, in his words, mixed success. While some take a considered approach, others are moving to UBP reactively – often with "horrible" results.

> **Companies adding UBP elements will realize they can't take the approach they did with traditional pricing – to just make it up. They'll need to take a more thoughtful, conscious approach to pricing.**
> **Christian Owens,** Founder and Executive Chairman, Paddle

The economic landscape has an impact, too. Chargebee's Director of Pricing Strategy **Ariela Bitran** points out that a flourishing economy and established product-market fit can make it really tough to choose which pricing strategy to focus on – because all your strategies are winning. The last two – rocky – years have, she says, "allowed companies to uncover what's working and generate repeatability."

Inside that environment, there are different mentalities companies could have, says SaaS Advisors Managing Director **Todd Gardner**. As he puts it, businesses could "keep pricing super simple so it doesn't slow down the new sales process, or they could make pricing more sophisticated to boost growth over time." Either way, pricing will be in the context of that slower growth environment in 2024.

This also means the discussions around these topics are starting earlier in the life cycle of a company, according to **Melissa Donohoe**, investor at Notion Capital. Historically, pricing and billing infrastructure topics were deemed more relevant to as topics relevant to Series B stage companies and beyond. Now, she says, "it's a topic almost from the start – it's in the discussion as much as hiring and Go To Market."

# 3 A robust tech stack will be needed to operationalize complex pricing

It's one thing to design pricing in an Excel sheet or vote on it in a pricing committee meeting, but pricing success comes down to whether you can operationalize. This is the one prediction for 2024 that every single contributor brought up.

**Andreas Panayiotou**, director of pricing and monetization at Notion Capital, notes that more people are becoming aware of how difficult it is to execute on pricing, largely due to their current tech stack not being able to keep up with the complexity. Going into 2024, he's seeing more people looking for solutions and, at the same time, "more companies realizing they don't have to build it internally and that spending engineering time on their internal billing systems is a waste of time and money."

Companies with usage-based elements in their pricing can't do it well without the right tech stack, asserts Christian. In the current economic climate, he has been witnessing too many companies "haphazardly" implementing UBP by "deprioritizing the implementation of an appropriate tech stack for pricing and pricing visibility" – all because they underestimate the amount of work required to do it well. **The companies who are more mature around pricing, he says, made sure that the tech stack was on the priority list.**

It's not a one-time issue, either. Sure, a company can build billing infrastructure for a particular pricing model, but what happens when you change the pricing? These situations – when you want to continue making pricing changes easily and billing painlessly – is when the need for the tech stack really shows, according to **Griffin**. "A company we talked to recently said 'Pricing is a process and a technology problem. But without the right technology, we can't even build a simple process.'"

### End-user perspective

**"With AI, for example, more companies will have to really scrutinize their investment, focus on their core capabilities, and free up engineering cycles. Will they want to continue building bespoke billing and metering stacks, or focus on what will be transformational to the core of their business? I hope most choose the latter."**

**Tanya Bragin,** VP Product, ClickHouse

### Investor perspective

**"Especially for companies looking to fundraise, it's important to be mindful of how investors value different revenue streams and pricing models and to get smarter about how you can leverage tools to forecast that out. The benefits of UBP are huge, but you need to show investors you can forecast that usage reliably."**

**Melissa Donohoe,** Investor, Notion Capital

### 2023 prediction rewind

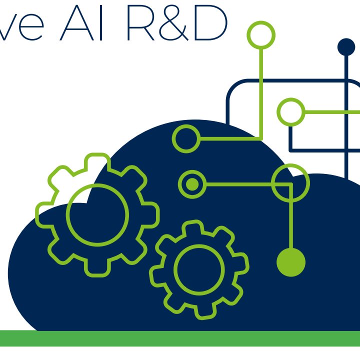
This 2024 prediction was consistent with last year: *"We need a modern pricing tech stack to enable more rapid pricing iteration, and price testing of both subscription and usage models – because these models actually are going to exist side by side."*

**Kyle Poyar,** Operating Partner, OpenView

# 4 AI adoption will push the software industry to innovate around pricing

According to OpenView's 2023 SaaS benchmarks report, **46%** of SaaS companies launched AI features over the last year and another **31%** are actively building or testing AI features. And since no one can put the proverbial AI genie backin the bottle, our contributors agree that the impact will only increase in the coming year – and that software pricing will evolve alongside it as companies look to monetize new AI features and maintain control over margins.

More than 3 in 4 SaaS companies have had or currently have AI R&D initiatives



### AI will drive UBP adoption due to increased variable costs.

Before the 2022 AI surge, James says, cloud infrastructure was the only segment commonly associated with gross margin challenges that arose due to usage-driven variable costs. But now that problem is becoming widespread and front-of-mind as companies integrate AI-driven features to their products. Going forward, he asserts that more companies will have to think about how to cover those costs in their pricing strategy. Because of this, Tanya believes AI will be "a catalyst" for companies that haven't yet adopted UBP elements.

### AI-native companies will drive pricing innovation industry-wide.

Kyle points out how disruptive it is for companies with an installed base to transition their customers to new pricing, so he's optimistic about some of the AI-native new entrants; they're the ones who, he says, "can try something totally new and get creative.".

### AI will enable companies to identify opportunities to optimize pricing.

The first two predictions focus on the cost protection and monetization strategies for AI. But what about the impact of AI on the actual pricing function? Christian doesn't think we've seen a lot yet from customers using AI in a sophisticated way to help them determine pricing. He believes that is a "natural evolution" that will start to happen as they focus more on value. Griffin believes AI will be used to identify optimal pricing at a customer or segment level. He notes that it's "a natural next step for data science to help with pricing challenges."

**Term to know:**

"AI washing" – Saying software is powered by AI to promote it or price it higher, even with a minimal or nonexistent level of AI integration. According to Christian, while companies with AI at their core have been bucking negative growth trends in 2023, AI washing negatively correlates with growth. "It's not a silver bullet."

# 5 Well-run companies will limit custom pricing to key customers

All the contributors agreed that most software companies are struggling to win new business right now, which will likely continue into 2024. Amidst that environment, Sales teams will want to utilize custom pricing to win new logos wherever possible.

According to **Andreas**, commitments around spend are a popular reason for custom pricing. **Eli Potter**, VP of sales and CS at Insight Partners, says Sales teams are willing to be more flexible if there can be a mutual benefit, like if they're talking to a very large logo and they can "use the tailwind of working with that brand." The smaller and the more unknown you are as a business, she says, the less flexibility there is.

## 2023 prediction rewind

"In [2023], custom 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."

**Griffin Parry,** CEO and Co-Founder, m3ter

**Griffin** says his 2023 prediction about custom pricing still feels relevant. For 2024, he adds that well-run companies will put limits on this strategy. If you're trying to optimize for every single customer, he notes, it's probably a "sign of ill discipline." He suggests applying an 80/20 rule – focusing custom pricing on the key customers.

**Ariela** agrees. The answer to uncertainty or decreased growth from 2020 and 2021, she says, is not necessarily to reduce pricing. When Sales teams are itchy and not closing as many deals, everybody gets nervous. She notes how easy it can be, especially in a sales-led organization, to blame that on "pricing yourselves out of the market." She suggests that smart companies will exercise caution before jumping to decrease pricing or give too many discounts, instead thinking about pricing as "a lever to respond to other gaps in the organization."

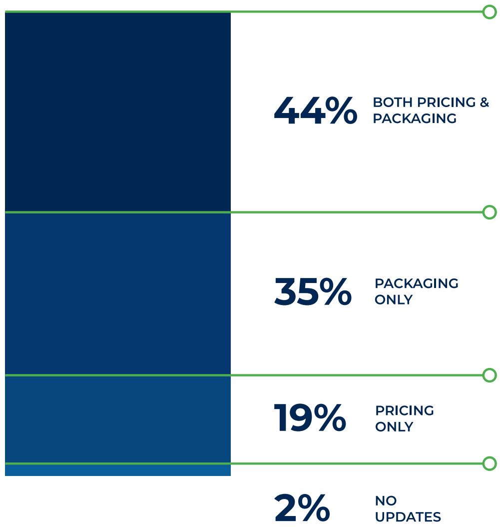
# 6 Companies with pricing power may continue raising prices – to a point

Anecdotally, we all know there were software price increases in 2023; most people probably received a carefully worded email from at least a few providers. According to data from Vertice, nearly three-quarters (73%) of software vendors increased their prices in 2023. Data from others like Paddle and OpenView show more broadly how many companies made any pricing or packaging changes during the year:

## State of B2B SaaS Pricing in 2023

**98%** of respondents have made updates to pricing or packaging since September 2022

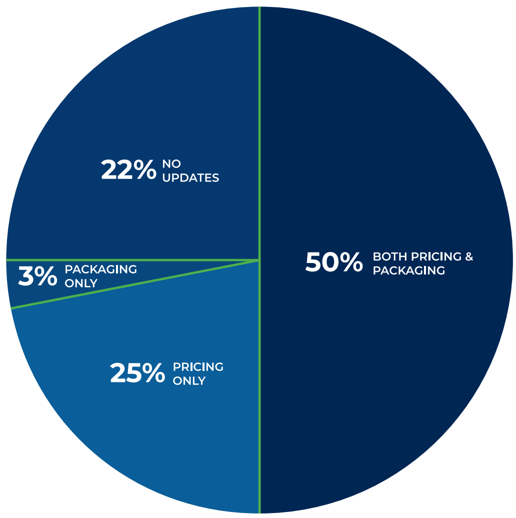
**63%** have made a pricing change




## 2023 SaaS Benchmarks Report

**75%** of respondents changed pricing during the previous 12 months (from ending Q2 2023), up from 61% in 2022

**+14%** median impact on NDR from changing pricing (among expansion stage software companies)



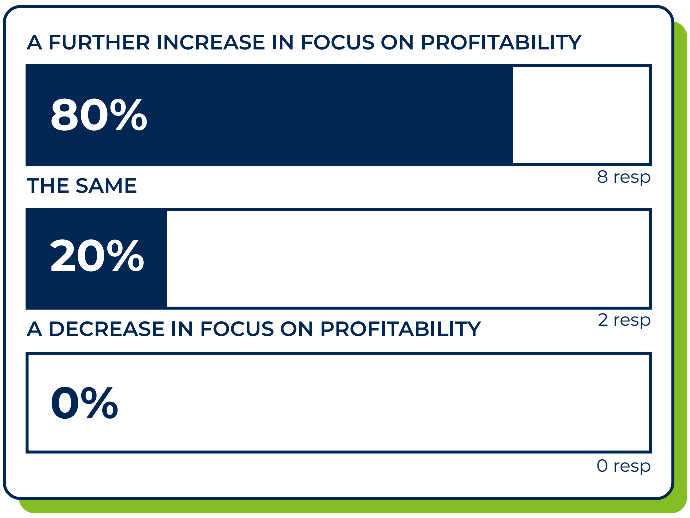

In 2024, **Christian** sees this trend continuing, as companies realized that changing their pricing "wasn't as scary as they thought." This was especially true for younger businesses for whom this may have been the first big update: "Now they have a playbook for future price changes."

Companies with differentiated AI in their products can ask for higher pricing, too, according to **Eli**. She reckons they still have the "first-mover advantage," probably with a one-to-two year head start.

According to **James**, the companies with pricing power – very inelastic demand and a lot of entrenchment – were comfortably able to raise prices to match or even beat inflation. However, he notes that the majority of companies, especially point solutions or those who aren't mission-critical, are either comfortable enough only to go up to the rate of inflation or not to increase prices at all, "because there's so many economic headwinds to closing deals in general."

# 7 Companies without pricing power will look internally to improve efficiencies

One of the 2023 predictions had been an increased focus on profitability, with pricing as a key lever. Eight out of ten contributors this year expect there to be an even larger focus on profitability in 2024, while two thought it would remain about the same.




For companies without the pricing power **James** discussed above, or for those who are not confident that they have pricing power, that drive for profitability or efficiency will have to be achieved internally. Rather than reaching profitability through raising prices, **Tanya** says, companies will be thinking about it more through internal cost cutting.

The unpredictability of the economy means companies are erring on the side of larger cuts, according to **Eli**. Companies will, as she puts it, “continue divesting to reinvest” and trying to ensure their spending is creating strategic competitive advantage.

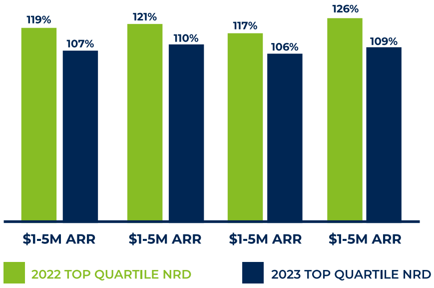
**Melissa** also  believes we’ll see a number of groups pulling back on costs, including those who target a smaller ICP, those with point solutions that aren’t in the critical stack, and venture-backed companies for whom efficiency is becoming very relevant to their investors.

The pendulum has not swung back yet, notes **Todd**. “2021 was growth at all costs. 2022 and 2023 marked a shift in focus toward profitable growth, and that is still a very important filter and goal for 2024.”

# 8 Monetization of existing customers will combat lack of new business

Last year, a big focus of our report was how pricing would be leveraged to mitigate churn. And while churn is still a big concern for software companies going into 2024, **Todd** believes that expansion – the other factor that impacts NRR – will be the focus for next year.

### Net dollar retention is hard to come by




> **The dust has settled a bit. We've had 18 months of a renewal cycle where people were cutting costs, so you've now cleared out some customers who weren't a fit. With most companies struggling to attract new customers, pricing – focused on your installed base – has elevated itself as a growth lever. That means expansion dollars.**
>
> **Todd Gardner,** Managing Director, SaaS Advisors

**Christian** agrees. In his words, companies have fewer "shots on goal" to sell right now, meaning they will be trying to monetize existing customers better. In his work at Paddle, he's seeing a sharp increase in companies introducing paid add-ons or adding functionality for their customers. Existing buyers, he says, may not be willing to spend more for the same product, such as through pricing changes, but they might be willing to pay more for new functionality.

### 2023 prediction rewind:

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

**James Wood,** Product and Pricing Strategy Lead, m3ter

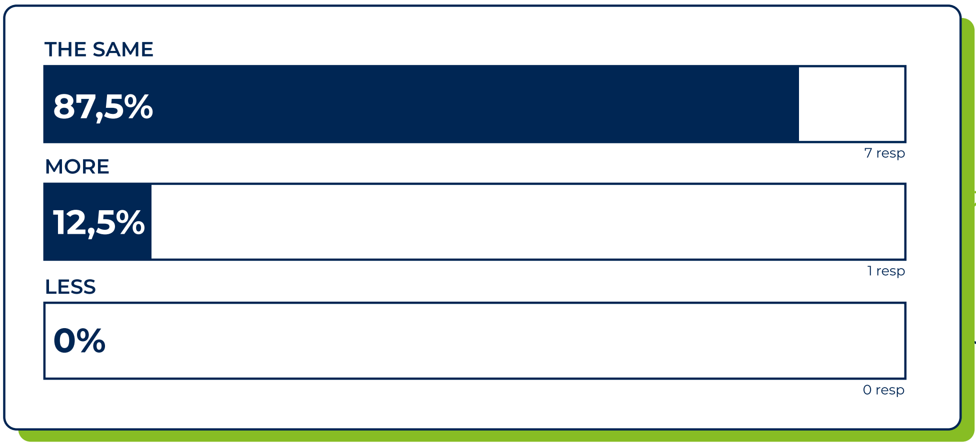
### 2024 prediction:

"There was increased understanding of the importance of overage governance in 2023, but operational challenges were a barrier to many companies acting effectively. I expect to see more understanding of how to overcome that in 2024."

**Griffin Parry,** CEO and Co-Founder, m3ter

### Will overage governance be more or less of a priority in 2024 against other factors?

*8 out of 9 answered*



# 9 Sales cycles will lengthen and companies will realize PLG is effort-intensive

According to **Eli**, sales cycles are getting longer, especially in the enterprise space. Any deal that's over $500K used to take three to six months, she says, but now it's taking six to nine months to sell anything new.

**Christian** is witnessing something similar. There was a period of a few years where the trend was 'When in doubt, offer a free trial.' He believes that is starting to melt away, especially in B2B, where companies are optimizing for, in his words, "a more robust sales process that takes a bit longer and might have proof of concept baked in, rather than a low-touch process."

What does that mean for PLG? It's not going away, according to **Christian**, but companies are realizing that if they want to do a PLG motion well, it requires a lot of effort and needs to be "an area of excellence."

"Usually the order goes acquire, monetize, engage. With PLG, it's acquire, engage, monetize," **Ariela** adds. But she notes that even if parts of a company's offering can be product-led, a large customer organization is complex and will require a lot of touches and commitment.

If we see growth in strategies like PLG, **Melissa** says, it will increase focus on the tech stack, as it adds complexity to the pricing model just like hybrid. PLG is often credit-based or consumption-based by nature, and, she points out, the number of customers you're billing grows massively.

> **What's the point of a PLG model if you don't have the infrastructure to analyze a customer's usage and encourage them to move up?" Without the proper tech stack, she says companies aren't maximizing the value of a PLG strategy, which can otherwise be "quite expensive.**
>
> **Melissa Donohoe,** Investor, Notion Capital

# Advice for Software Businesses to Prepare for Pricing in 2024

With all these predictions in mind, we asked the contributors to offer some advice for software companies navigating the 2024 pricing landscape:

**Ariela Bitran**
Director of Pricing Strategy, Chargebee

### Figure out which strategies worked even during economic uncertainty – and repeat them

"Stay focused and take the time to understand how the ups and downs of the economy affected your business. You can use that to uncover what's working. Look back at the last three to four years: What continued working from 2020 to 2023? Find the segments where your pricing strategy has been successful and use that to create repeatability – a more targeted strategy for your top segments over the next five years."

**Tanya Bragin**
VP Product, ClickHouse

### Be sympathetic to existing customers that can't afford a price hike

"First, ensure the value you provide aligns with your pricing. Second, be sympathetic to existing users that maybe can't afford a price hike. If you do need to raise prices, do it more with packaging decisions, like offering an add-on. That way, you're letting existing users continue at their current price point if they're happy, but if there is another type of use case you want to capture, you can consider a packaging change."

**Melissa Donohoe**
Investor, B2B SaaS, Notion Capital

### Have the infrastructure in place to use pricing as a strategic lever

"There's a lot of businesses that will have to revamp their business models to become more efficient and improve their burn multiple in order to push fundraising out if the environment isn't super favorable. For runway extension, one of the levers you have is pricing changes and increases. But you need to have the infrastructure in place to do it in a seamless way where you can prevent as much business disruption as possible."

**Todd Gardner**
Managing Director, SaaS Advisors

### Invest in sustained pricing capabilities

"If you haven't invested in sustained pricing capabilities, it's a big lever that you're going to need to address soon. It's clearly not as easy to throw out a SaaS product and have it gain adoption these days. All the SaaS companies that I'm talking to, public and private, are just growing significantly slower than they were two years ago. So it's a lever that needs to be leaned on, and you need to do it in a thoughtful and data-driven way."

**Christian Owens**
Founder and Executive Director, Paddle

### Get comfortable with – and encourage – rapid experimentation

"Get really comfortable with experimentation and learn from the companies who are larger than you and ahead of you. Companies of all sizes need to get to a point where they can iterate on pricing around the idea of value, and implement the tools, systems, frameworks and culture inside the company that enable and encourage rapid experimentation."

**Andreas Panayiotou**
Director of Pricing & Monetization, Notion Capital

## Build your own pricing strategy; don't copy what everyone else is doing

"When working on pricing, don't just look at what other people do and blindly copy it. You have to start from your product and your strategy and work back from there. You need to decide the approach that works for you as a business because you're unique – you're not Snowflake, you're not AWS, you're not Salesforce. There's no getting around the hard work and effort you'll need to put in to come up with the approach that works for you."

**Griffin Parry**
CEO and Co-Founder, m3ter

## Ensure you have the operational capability needed to deploy pricing

"Pricing is a crucial growth lever. Most companies that deploy usage-based pricing strategies can't effectively pull that lever, and that means they're leaving money on the table and growing more slowly than they should. My advice would be to really work out how to deliver yourself operational capability around pricing, and then start working out what your optimum pricing patterns and designs are."

**Eli Potter**
VP, Sales & CS, CIO as a Service, Insight Partners

## Focus on value and outcomes

"Warren Buffett said 'Price is what you pay, value is what you get.' A lot of companies struggle to articulate customer value of their products, and many want to talk about productivity or making you 30% more efficient – that's not as interesting as impacting top line revenue or growth rates. It's a lot more impactful to focus on recurring customer value and outcomes that drive recurring revenue."

**Kyle Poyar**
Operating Partner, OpenView

## Invest in infrastructure that allows you to evolve and innovate pricing

"Many companies are running into limits with their existing tech stack, that doesn't allow them to monetize their products the way they would like to, so they've watered down what they want to do to whatever they can ship in the next quarter. In 2024, I'd like to see companies invest in the infrastructure and technology to think about pricing as akin to how they think about their products themselves; something you can regularly evolve as you learn from customers and innovate. Companies should shift from shipping a pricing change quickly to having a system in place to be able to meaningfully use pricing as a growth lever. "

**James Wood**
SaaS revenue growth and pricing expert; Advisor, m3ter

## Understand your pricing power and imbue that confidence throughout the organization

"Try to understand your pricing power. That will enable you to make the right decisions in the year to come. It doesn't look like we're going to see the economic fog of the last few years lift in 2024, so ensure you aren't needlessly leaving money on the table. Look at the data to understand churn rates, where discounts were granted, if people are being too flexible or vice versa... Give yourself the confidence to see where you do have pricing power – in a specific industry, for example – and imbue that confidence throughout Sales and the whole organization."

ABOUT

# m3ter

## m3ter's Pricing Operations Platform

helps B2B software scale-ups manage complex pricing by calculating error-free bills and sending them to your finance systems, so you can eliminate billing headaches and revenue leakage.

Pricing is proven to be a critical growth lever for scaling businesses.
Learn more about the full pricing model spectrum in our Guide.

LEARN MORE