GUIDE TO TIERED PRICING

In this guide

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What is tiered pricing?

Tiered pricing is a strategy where businesses offer customers a variety of price points, with each tier including specific benefits and features. Customers can choose a tier that aligns with their needs and budget and be incentivized to move to higher (more expensive) tiers over time.

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Types of tiered pricing

This pricing strategy can be categorized into different types, all of which may be called by different names depending on the company. At m3ter, we sort tiered pricing into three main types: feature-based tiers, volume discount tiers, and fixed tier models.

Feature-based tiers

Different price points are set based on the features included in the product or service. Basic features come at a lower price, while premium features cost more. This is one of the more commonly discussed versions of tiered pricing that is often seen in the SaaS world. You've likely seen the popular three-tiered pricing model on many software pricing pages:

Volume discount tiers

The price decreases as higher quantities are purchased. This model can be used either with a fixed metric (e.g. seats, processing calls, number of servers, etc.) or on a usage metric. The more you buy or use, the cheaper it gets per unit.

There are two variations of volume discount tiers. In the first example (below), Buyer ABC pays $10 per seat for the first 10 users; $5 per seat for the next 20 users; and $3 per seat for every user over 30. If Buyer ABC has 50 users, the bill would look like this:

Range	Price per user	Buyer ABC users	Total Cost
1 - 10	$10	10	$100
11 - 30	$5	20	$100
> 31	$3	20	$60
TOTAL		50	**$260**

The second version of volume discount tiered pricing operates on a progressive basis, where your price per unit is set by which tier your total falls in. If we use the same pricing as the previous example, and Buyer ABC has 50 users, then because 50 falls in the highest tier they would pay 50 x $3 = $150 total; with 15 users, they would pay 15 x $5 = $75 total, and so on.

Range	Price per user	Buyer ABC users	Total Cost
1 - 10	$10		-
11 - 30	$5		-
> 31	$3	50	$150
TOTAL		50	**$150**

Fixed tiers

Customers must choose between tiers with fixed amounts with no in between option. For example, a company offers tiers with 10, 20, or 30 seats. Their customer wants 15 seats, but must choose between these fixed tiers, so they go with the 20 seats option. Fixed tiers encourage customers to over-buy slightly, which turns into a bit of a cycle: It encourages additional usage, then additional buying, and rinse and repeat. It's important to keep tiers somewhat narrow (e.g. ~20-30% increase per tier), as if customers buy *much* more than they can feasibly use it may cause dissatisfaction and customer churn.

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Advantages of tiered pricing

t’s not by mistake that this became such a common SaaS pricing model – there are a number of tiered pricing benefits:

1) Segmentation and increased revenue potential: Every buyer is different. Offering multiple tiers allows businesses to segment their customers and tailor packages to their needs and budgets, capturing more revenue from a wider market.

2) Scalability and upselling: Customers can start with a lower tier and upgrade as their needs grow, providing a clear path for scaling on both a customer and business level.

3) Perceived value: Businesses with tiered pricing get to choose what is offered at each tier, thereby shaping how the customer views the product and certain features. Higher tiers can highlight premium features, increasing their perceived value and justifying higher prices.

Advantages of tiered pricing

4) Flexibility and retention: Letting customers choose the best fit plan for their current requirements and budget offers valuable flexibility. In the worst of times, it also helps decrease churn by building in options to downgrade if budgets tighten.

Disadvantages of tiered pricing

Despite these benefits, there are drawbacks to consider with tiered pricing (as with any pricing model). These include:

1) Complexity: Managing multiple tiers can be complex, particularly for businesses with extensive product or service offerings – and it's especially complex if you don't have the right system to manage your billing. Compared to simpler models, it may require more administrative resources to handle billing, support, and upgrades across different tiers.

2) Customer uncertainty: Too many tiers can confuse and overwhelm potential customers. If it's too hard for them to decide which plan is best for their needs, they may choose to look elsewhere. This is much less of an issue in sales-led go-to-market strategies, where the salesperson can guide customers to the right option for them.

3) Defining and differentiating: Simply throwing features or usage amounts into different buckets and calling them by new fancy tier names won't work; there's initial groundwork and research required to identify how tiers should be packaged and who they should be marketed to. It's also tricky to distinguish features between tiers and avoid customer dissatisfaction if they feel lower tiers are too limited or higher tiers are not worth the extra cost.

4) Change management: Making changes to any pricing model brings challenges, and the same goes for tiered pricing. If you decide to alter the tiers, what's included, or the model altogether, you'll have to adequately explain and manage that change with customers.

Find out how your business can automate tiered based pricing today

Schedule a demo