

Tapping into the subscriber psychology with Good Better Best

IS THERE AN OPTIMAL RATIO
BETWEEN TIERS?

ABOUT THIS WHITEPAPER

This whitepaper is a chapter by Gaurav Sonpar, Subscription Strategist - Zuora and Michael Mansard, Principal Director Subscription Strategy & EMEA Chair of the Subscribed Institute - Zuora, from the upcoming book "Digital Pricing Strategy: Capturing Value from Digital Innovations" by Stephan Liozu and Andreas Hinterhuber scheduled for publication in 2023. The book focuses on the monetization and pricing of digital innovations. It addresses critical concepts such as the value and pricing of data, pricing for Industry 4.0, pricing in marketplaces and digital platforms, subscription- and usage-based pricing, and AI-based pricing. The book is forward-thinking and highlights future trends to support companies in their digital strategies.

ABOUT STEPHEN LIOZU

Stephan Liozu (www.stephanliozu.com) is Founder of Value Innoruption Advisors (www.valueinnoruption.com), a consulting boutique specializing in industrial pricing, digital business and pricing models, and value based pricing. Stephan has 30 years of experience in the industrial and manufacturing sectors working with companies like Owens Corning, SaintGobain, Freudenberg, and Thales. He holds a PhD in Management from Case Western Reserve University. He has written several books, including "Monetizing Data" published in 2018.

ABOUT ANDREAS HINTERHUBER

Andreas Hinterhuber is a Partner of HINTERHUBER & PARTNERS. He heads the company's Pricing practice. He is a leading pricing expert and advises companies worldwide. Andreas has published numerous articles on pricing and strategy in MIT Sloan Management Review, Long Range Planning, Industrial Marketing Management, Management Decision and other international journals. He is editor of the books "Innovation in Pricing" (Routledge, 2012), "The ROI of Pricing" (Routledge, 2014) and "Pricing and the Sales Force" (Routledge, 2015). He has successfully led consulting projects on pricing for large and medium-sized companies globally, most recently for 3 member companies of the DAX 30 and a number of family-owned, medium sized companies in Germany and Austria.

Andreas holds an MA from Bocconi University and a PhD in Business Administration from the Vienna University of Business and Economics. He has been acting Chair and Head of the Institute of International Management at Katholische Universität Eichstätt-Ingolstadt (Germany) a long-term visiting professor at Bocconi University (Milan, Italy). He is currently a visiting professor at USI Lugano (Switzerland) and at the University of Bolzano (Italy)."

Executive Summary



Gaurav Sonpar
Subscription Strategist



Michael Mansard Principal Director of Subscription Strategy and EMEA Chair of The Subscribed Institute

The rise of subscriptions has positioned services, and the recurring revenue they generate, front and center. And services are a fantastic win-win for companies and their customers in terms of value. But the thing about value is, you've got to put a number on it. That's where subscriptions become a challenge.

While pricing and packaging is one of the most powerful mechanisms to capture new subscribers, it is also the area that requires the most significant change in mindset. To successfully monetize subscription-based products and services, businesses need to completely move away from the cost-plus paradigm. This new world is about value—from the customer's perspective.

Many organizations taking the plunge into subscriptions tend to stick with what has worked in the past, specifically, a linear product-centric approach, and the aforementioned cost-plus pricing.

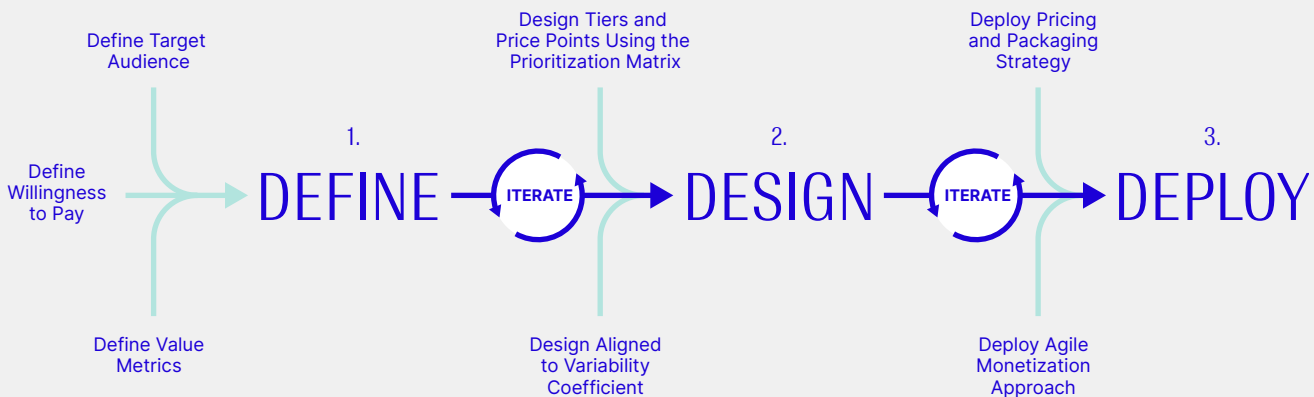
Instead of reimagining value metrics and packaging tiers from the subscriber perspective, they instead obsess over the price point.

Now is the time for that to change. To that end, we have created this handbook on the art and science of Good-Better-Best (GBB) pricing and packaging for subscription companies. Leveraging numerous client engagements and industry leading practices, we have developed a 3D Pricing and Packaging (P&P) Framework to help companies launch and refine a GBB-based packaging model. Along the way, we have embedded real life examples, specific guidance, and benchmarks.

Advanced readers will also be delighted to check out the 'Design' section, where we reveal unique benchmarks for GBB pricing. This section leverages data points from leading players to articulate guardrails for price differentials among the tiers.

Let's get started.

DEFINE, DESIGN, DEPLOY



The shift to usership is accelerating

The rise of the Subscription Economy® and the shift to consumption-based models means that customers today value access to services over owning products. And while this phenomenon was once limited to Media and Tech businesses, it has now extended across various industry sectors.

Companies that successfully manage this shift to usership are reaping the benefits. The most recent Subscription Economy Index report found that subscription businesses experienced faster growth rates compared to the S&P 500 in 2021, with 16.2% and 12% revenue growth, respectively.*

When purchasing subscriptions, buyers weigh their options to make the initial transaction, but they also have expectations after the “sale”—and their expectations are constantly evolving. The customer’s relationship with the company is no longer just a moment in time, it’s an entire series of interactions, including future transactions and renewal decisions. In effect, the linear decision-making process has turned into a living, breathing, dynamic subscriber-centric journey.

In a subscription model, the customer decision-making process follows a distinctive pattern:

1. Identifying business or individual needs that are met by the offering
2. Gathering information about the offering from direct and indirect sources
3. Evaluating options based on key considerations (like price and willingness to pay)
4. Eventually (hopefully!) subscribing to the service

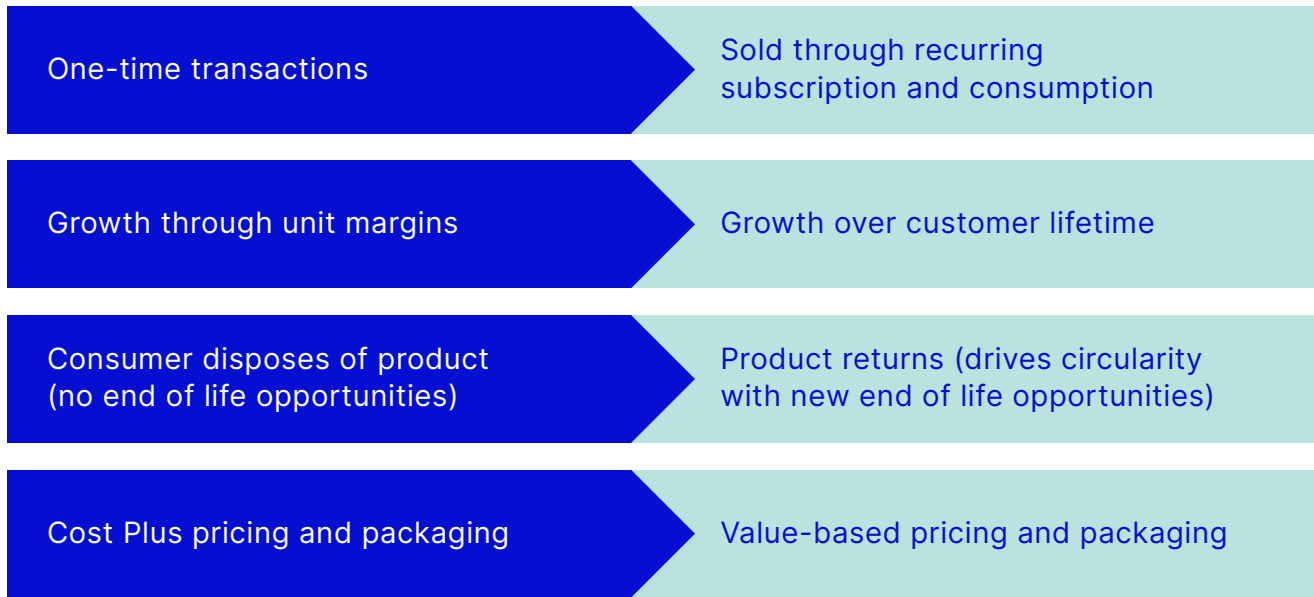
But the purchase process itself is just the beginning. Customers expect ongoing value beyond the initial transaction, with post-purchase interactions and experiences playing a critical role. In many ways, this is good news, because it costs less to keep existing customers than to acquire new ones. That’s why market leaders focus on improving Customer Lifetime Value (CLV).

*The Subscribed Institute, Zuora

70%

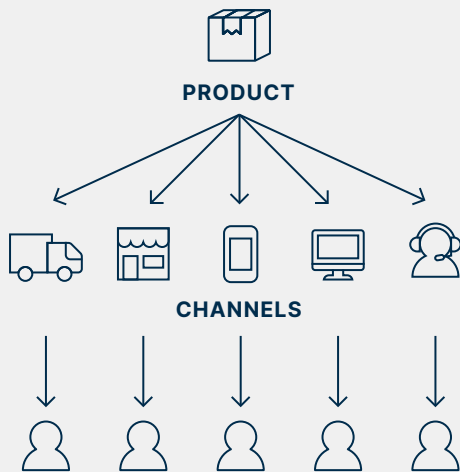
of business leaders say subscription business models will be key to their prospects in the years ahead

THE SHIFT FROM PRODUCT-CENTRIC TO SUBSCRIBER-CENTRIC



LINEAR, PRODUCT-CENTRIC MODEL

One-time transaction where the consumer buys a product without a longer-term commitment



DYNAMIC, SUBSCRIBER-CENTRIC MODEL

An agreement with the consumer that facilitates regular delivery or long-term use of a service and/or product



PRICING PLAYS A CRITICAL ROLE IN THE CUSTOMER'S DECISION-MAKING PROCESS

Pricing is much more than just a number. It is a representation of the value that customers perceive from your goods and services. Yet too many businesses set prices without even considering the customer's perspective.


This oversight can have costly consequences. It could result in unsuccessful subscription launches for companies looking to make the transition to consumption-based models. For companies who already offer subscriptions, pricing mistakes could hold them back from scaling up or reaching revenue targets. In fact, [McKinsey estimates](#) that packaging mistakes translate to a loss of 5-15% percentage points of revenue growth per year for those companies.

Pricing and packaging mistakes are a problem because they directly impact customer decision-making. A price that is beyond customers' willingness to pay sends a message that your company's offering is out of reach. A low price may lead customers to conclude that your offering is low value or low quality. The solution is to align pricing and packaging with the target segments for your business. We call this customer-centric model value-based pricing.

It's worth noting that value-based pricing doesn't mean value for money. Customers are prepared to pay more than most businesses assume they will, provided clear and structured options are presented to them. However, their willingness to pay higher prices directly correlates to their needs, whether specific (and immediate) pain points have been solved, and if packaging has been thoughtfully designed to aid the decision-making process.

In a traditional transactional business, making a pricing mistake is unfavourable, but it's not the end of the world. But in a recurring business, it's a catastrophe that repeats over and over for the life of the subscription—with devastating downstream effects on the customer lifetime value (CLV).

The question then becomes: how do you use packaging to communicate value to customers, while also creating meaningful choices? Pricing and packaging is more than just a means for your own business to succeed, it is also a competitive tool that helps differentiate your offering. Now let's look at some of the different packaging models used in business today.



“The single most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you've got a terrible business.”

– Warren Buffett, Global Banking and Finance Review

RECURRING REVENUE PACKAGING MODELS

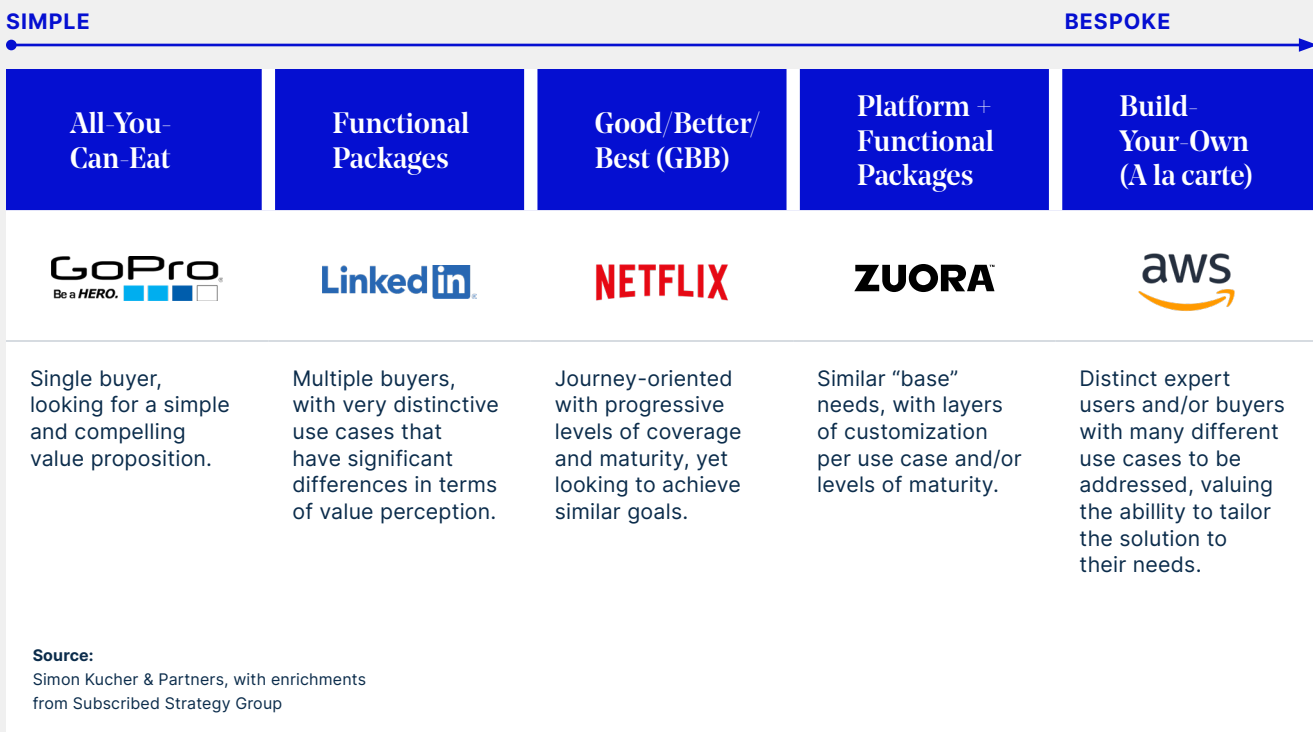
There is no one right way to design pricing and packaging. Packaging is simply the bundling of features and functionalities to formulate a unique value proposition for the target audience. Depending on the industry, the competitive landscape, the level of subscription maturity, and the company’s strategy, the calculation will vary. Here are a few examples of packaging models being used by different leaders in the subscription economy.

Choosing the best model for your business ultimately comes down to who your customers are and what they need. For example, GoPro targets a fairly monolithic customer type (consumers and content creators looking

to produce amazing, professional quality video) who are looking for a relatively simple transaction—“a buy it and use it” package. Whereas AWS serves large enterprise customers who expect solutions that have been completely tailor-made for their particular needs, the polar opposite of GoPro.

For organizations looking to launch new offerings with multiple customer targets and packaging options, GBB is often an effective approach. Most companies need a package that is flexible enough to satisfy a wide range of customer types, allow upgrades and downgrades during the customer journey, and clearly communicate the value proposition at the point of sale. That’s why we recommend the Good-Better-Best model.

PRICING AND PACKAGING STRATEGIES



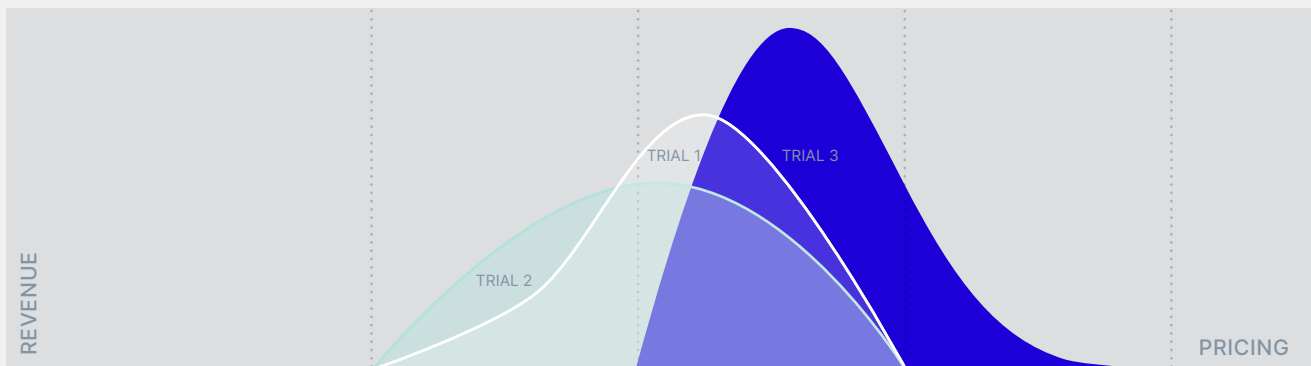
Why Good-Better-Best?

What makes the Good-Better-Best (GBB) packaging model so compelling is its simplicity. GBB is driven by a well-studied behavioural mechanism observed in Decision Theory: asymmetric dominance. This concept, also called “the decoy effect”, is best illustrated by The Beer Trial.

THE DECOY EFFECT IN ACTION: THE BEER TRIAL

Despite the apparently rational nature of comparing numbers, price decisions usually have a strong intuitive component. People’s perception of prices can be influenced by introducing a cognitive bias in the decision-making process. Behavioural economist William Poundstone highlighted this cognitive bias* in a series of trials with a group of business undergraduates (see “The Beer Trial” below).

THE BEER TRIAL



	Super-Bargain (\$1.60)	Bargain (\$1.80)	Premium (\$2.60)	Super-Premium (\$3.40)	Revenue
Trial 1	—	~33%	~67%	—	\$233.60
Trial 2	0%	~47%	~53%	—	\$222.40
Trial 3	—	0%	~90%	~10%	\$268.00

Trial 1

Subjects were presented with a choice between “premium” beer for \$2.60 (quality rating 7/10) and a “bargain” one for \$1.80 (rating 5/10).

Students preferred the premium beer by a 2-to-1 margin.

Revenue earned*: \$233.6

Trial 2

A lower priced “super-bargain” option was introduced for \$1.60 (rating 4/10). Not a single student wanted the super-cheap beer. Yet it affected what they did choose. The proportion of students choosing the original bargain beer rose to 47 percent, up from 33 percent. The existence of the super-cheap beer legitimized the bargain beer.

Revenue earned*: \$222.40

Trial 3

Now the “super-bargain” option (\$1.60) was replaced with a “super-premium” option for \$3.40 (with marginally better rating of 7.5/10).

Ten percent of the students said they’d choose the super-premium beer. An astonishing 90 percent chose the premium beer. Now nobody wanted the bargain beer.

Revenue earned*: \$268.00

* (sample size of ~100)

The Beer Trial demonstrated people's psychological inclination to avoid extreme options in favour of intermediate or middle options. Those who chose the middle-priced option of the three described their decision as a "safe" or a "compromise" choice. The cheapest beer might taste terrible, and the most expensive might be a rip-off, but one in the middle of the pack ought to be okay.

Today, GBB pricing can be seen everywhere, from SaaS to Media to Insurance companies. It allows companies to target as much of the market as possible by diversifying their offerings to customers of different sizes and budgets. It simplifies the decision-making process for customers while simultaneously

paving the way for future upgrades to "Better" or "Best" options. And, when building a new market category, the different, progressive tiers of GBB provide flexibility to adjust to uncertainty.

The Decoy Effect has even proven effective in commoditized markets. For example, AllState experienced significant uplift for its insurance product by repackaging its offering with a GBB model (nicely documented in this famous [Harvard Business Review](#) article).

EXAMPLES OF GOOD-BETTER-BEST

Mailchimp provides a good example of value-based GBB price points. The tiered pricing plans address a wide range of customer segments, from businesses starting out, to those on a growth trajectory, to mature businesses already working with a large number of contacts.

	Premium	Standard	Essentials	Free	
	Advanced features for pros who need more customization.	Data-driven automation and optimization tools for businesses that want to grow faster.	Great for email-only senders who want around-the-clock support.	All the multi-channel tools you need to build your business and grow your audience.	
Starts at	\$299	\$14	\$9	\$0	
	/month based on 10,000 contacts* How many contacts do you have?	/month based on 500 contacts* How many contacts do you have?	/month based on 500 contacts* How many contacts do you have?	/month based on 2,000 contacts*	
	Buy Now	Buy Now	Buy Now	Sign Up Free	
Everything in Standard, plus:	<ul style="list-style-type: none"> Advanced Segmentation Multivariate Testing Comparative Reporting Unlimited Seats & Role-Based Access Phone Support 	Everything in Essentials, plus:	<ul style="list-style-type: none"> Customer Journey Builder + Branching Points Send Time Optimization Behavioral Targeting Custom Templates Dynamic Content 	Everything in Free, plus:	<ul style="list-style-type: none"> Email Templates Multi-Step Journeys Custom Branding A/B Testing 24/7 Email & Chat Support
	About Premium	About Standard	About Essentials	About Free	

Netflix offers GBB tiers based on video quality. At each successive tier, the screen resolution improves, which provides a meaningful differentiation for subscribers and helps reach a wide range of customer targets.

	Basic	Standard	Premium
Monthly price	\$9.99	\$15.49	\$19.99
Video quality	Good	Better	Best
Resolution	480p	1080p	4K+HDR
Watch on your TV, computer, mobile phone and tablet	✓	✓	✓

CONSIDERATIONS WHEN ADOPTING GBB PRICING

Benefits	Watchouts
<p>Expand market reach: Attract wider range of subscribers by offering choices targeted to different customer segments</p>	<p>“Paradox of choice”: Providing prospects with too many options can trigger decision fatigue or choice overload, resulting in choice deferral</p>
<p>Grow revenue pools: Capture more of the total addressable market (TAM) and increase conversion rates by meeting a wider range of customer demands</p>	<p>Packaging and Optimization: Ring-fencing tiers (based on features, usage, etc) and pricing is challenging and requires continuous testing and iteration to find the right balance</p>
<p>Predictable revenue: More accurate revenue forecasting and planning to manage growth</p>	<p>Apple-to-Pear Comparison: Subscribers are unable to make price-to-value comparison if features vary too much across tiers, resulting in decision fatigue</p>
<p>Diversified pricing strategies: Flex and align tiered packaging models with pricing strategies, e.g., set low base pricing for an effective penetration strategy</p>	<p>Managing subscriber expectations: Some subscribers will always be unhappy about not getting everything in their price point.</p>
<p>Clear upgrade path: Subscribers easily see and understand the upgrade rationale for the next best tier</p>	<p>Suboptimal value capture in some contexts: With a very broad user base, some customers will use the product or service in a myriad of unexpected ways, which is why Zoom created industry-specific packaging and pricing for Education and Healthcare while offering GBB for enterprise customers</p>
<p>Maximize Customer Lifetime Value (CLV): By ring-fencing features, companies can allow customer downgrade—it is better to downsell than to churn</p>	
<p>Name the game: Naming each tier supports your marketing narrative, especially when building a new category</p>	

To summarize, tiered GBB packaging enables companies to position offerings to a wider spectrum of customers, resulting in better revenue monetization opportunities. But pricing, launching, and managing these

tiers require a sizeable effort to meet a wide range of customer demands. When it comes to GBB, companies will need to put in the work to make it work.

[*Priceless: The Myth of Fair Value \(and How to Take Advantage of It\)](#)

Finding the Right Balance: How to Build a GBB Package

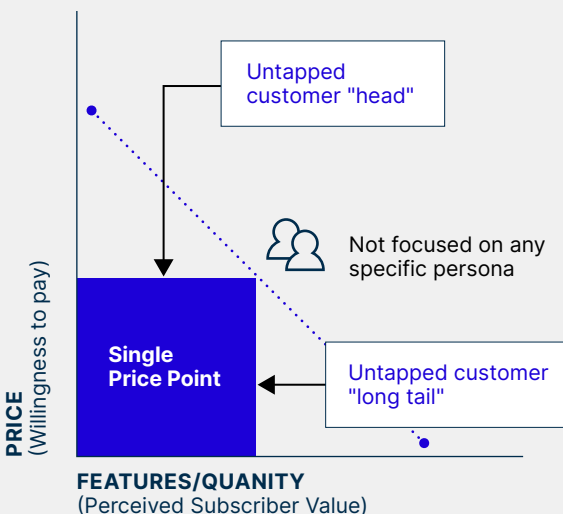
GBB offers an effective strategy to address multiple customer segments by offering differentiated, progressive service tiers at increasing price points. But to be effective, GBB tiers must incorporate meaningful trade-offs between price and perceived value. This means finding the right balance of features, services, quantity offered, usage, customisation, etc. It is paramount that the distribution across the tiers matches target customer segment(s) and is aligned to the revenue strategy.

Finding the right balance isn't easy. For example, if you load the base "Good" tier with extra features that meet the requirements of a premium segment (with higher WTP), you will undermine the perceived value of the higher tiers. Your customer pool will skew toward the lower tier, adversely impacting your overall revenue numbers.

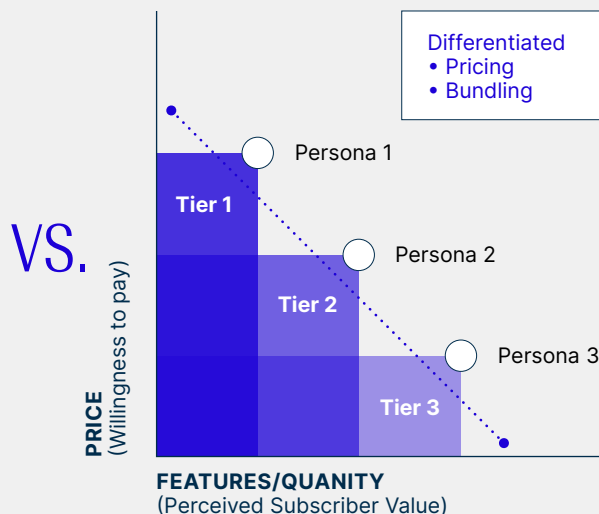
On the other hand, if your "Good" version is too light, or the top-tier "Best" version is overloaded with high-value features, you will not be providing a meaningful choice for customers no matter what the price differential is, because the Best tier will be seen as the only quality option.

So how do you "get it right" when it comes to GBB tiers? To help you navigate this process, the Zuora's Subscribed Strategy Group (SSG) has developed the **3D Pricing and Packaging (P&P) framework**.

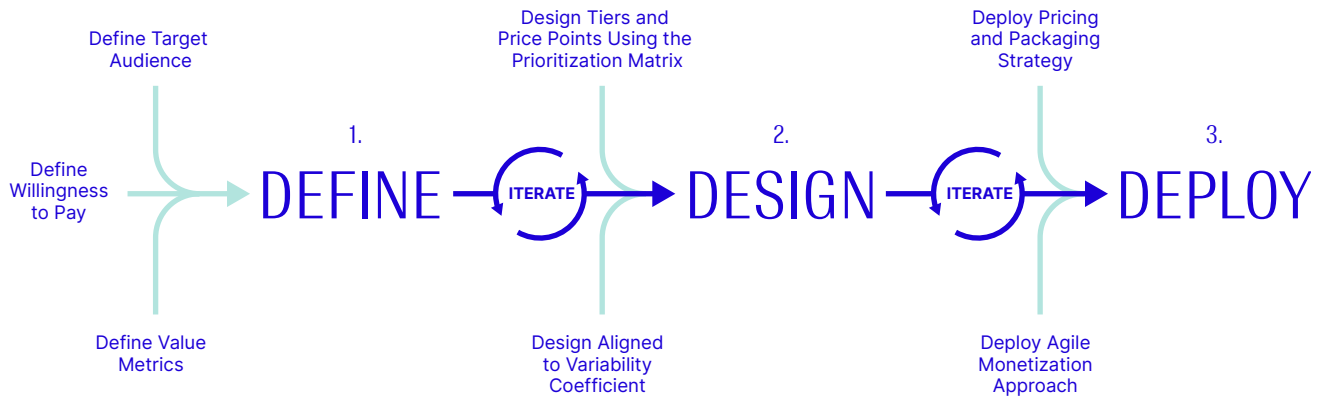
ONE-SIZE-FITS-ALL



TIERED PACKAGING



DEFINE, DESIGN, DEPLOY



INTRODUCING ABC LTD

To help illustrate the 3D P&P Framework, we will be using the case study of a fictional company called ABC Ltd. ABC offers workspace business solutions for SMBs, including emails, video conferencing, collaboration in real-time, cloud based file sharing, and storage, along with other applications.

ABC Ltd has designed an innovative workspace collaboration platform. They want to set up an effective and differentiated pricing and packaging strategy using the GBB model. As we move forward, we'll see how ABC builds and deploys their tiers.

DEFINE TARGET AUDIENCE, WILLINGNESS TO PAY, AND VALUE METRICS

I. Define Your Target Audience

It is essential to figure out who your customers actually are—not who you assume they are. You obviously have a sense for who buys your products. But do you really understand how prices influence their purchasing decisions?

In a subscription model, understanding customers means gaining visibility beyond the point of purchase. You need to see the subscriber journey from prospect to sign-up, what the drivers are for subscribing, and what barriers may prevent a subscriber from considering your offering.

To get started, you'll need to define your entire subscriber pool, i.e., the addressable market. Then divide that market into smaller segments. Each of these segments will be represented by a subscriber persona, which will form the foundation for each pricing tier.

We recommend the use of multiple sources of data to understand customers' motivations, attitudes, behaviours, challenges, and desired outcomes. Qualitative research is a great place to start: customer interviews, focus groups, insights from sales or customer-facing teams, and ethnographic research are all excellent sources. Use this data as the building blocks to create customer descriptions, including expected ("Table Stakes") vs higher value ("Premium") features and services.

Once you have sketched out your customer personas, embellish them with quantitative research using market insights, web analytics (demographics, interests, buying patterns, etc), and internal client data. It is also important to explore the commercial viability of your customers according to core subscription model metrics like customer acquisition cost (CAC), lifetime value (LTV), and willingness to pay (WTP). We'll do a deeper dive on WTP in a moment!

Based on the research and analysis, ABC Ltd identified three target subscriber personas: SME Bill, MID MARKET Emma, and CORPORATE John.

ABC LTD EXAMPLE

	Persona 1 SME Bill	Persona 2 MID MARKET Emma	Persona 3 CORPORATE John
ABOUT	SME Bill runs a small team on a tight budget. He needs solid functionality to keep his staff from getting overloaded, without breaking the bank.	MID-MARKET Emma runs a department at a midsize company that is growing rapidly. She needs a solution that meets her needs now, but with the potential to seamlessly upgrade later.	CORPORATE John works for a multinational enterprise dealing with increased security concerns and new acquisitions. He has been allocated a substantial budget and needs a top-of-the-line solution.
GOALS	Upgrade from his homegrown workspace system	Manage rapid growth	Looking for a turnkey solution
MOTIVATIONS	Needs professional grade software	Needs to manage larger team	Needs top-notch security and a collaboration platform to support productive ways of working
FRUSTRATIONS	Tight budget	Doesn't want to have to start all over again if the company grows	Doesn't have time for poor customer service
FEATURES AND PREFERENCES (MUST HAVE VS. NICE TO HAVE)	Must Have <ul style="list-style-type: none"> • Ad-free business email • Calendar sharing • Video and voice conferencing • Messenger • Doc sharing and collaboration 	Must Have <ul style="list-style-type: none"> • Phishing and spam protection for emails • Cloud storage for high resolution docs and files • Video conference with large audience across globe 	Must Have <ul style="list-style-type: none"> • Secure emails • Archive and search emails and docs • High video and sound quality
	Nice to Have <ul style="list-style-type: none"> • Digital whiteboards • Support advanced doc types 	Nice to Have <ul style="list-style-type: none"> • Meeting recording • Invite guests in chat rooms • Enhanced security features 	Nice to Have <ul style="list-style-type: none"> • Unlimited storage • Record meeting participation
OPTIMAL PRICE POINT (OPP)	\$3.5	\$7.5	\$12.5
INDIFFERENCE PRICE POINT (IPP)	\$4.5	\$9	\$15
RANGE OF ACCEPTABLE PRICES	\$3-5	\$7-10	\$12-15

II. Define Subscribers' Willingness to Pay

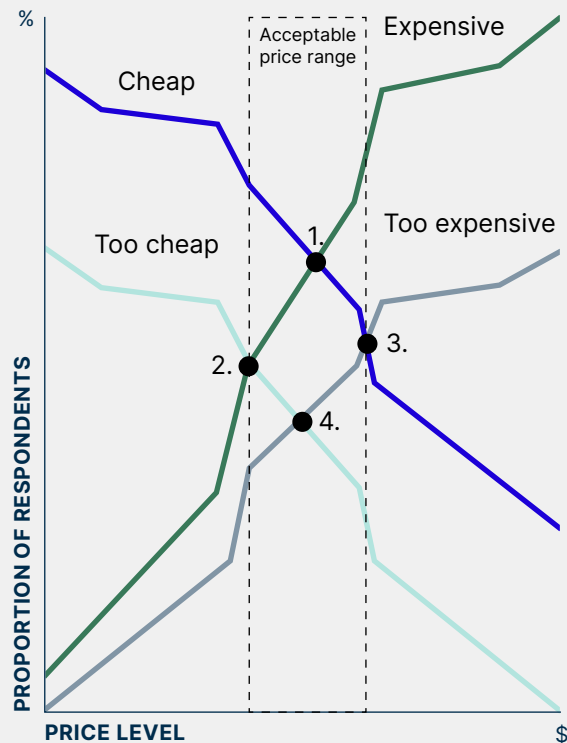
Willingness to pay (WTP) is the maximum price a customer is willing to pay for a product or service. Typically WTP represents a figure, but in some cases it could be a range. Assessing WTP is key to driving value-based pricing instead of cost-plus, because it incorporates the customer's perception of the product or service.

Many different models have been developed to assess WTP, including conjoint, Gabor Granger, Monadic, or Van Westendorp's Price Sensitivity Meter (PSM). As a rule of thumb, we recommend PSM, as it provides an effective, easy-to-use, data-driven, survey-based approach. It doesn't provide a precise price point, but it helps define an optimal range of acceptable price preferences based on how subscribers value the product or service.

The PSM approach asks four price-related questions to determine the maximum amount a consumer is willing to pay and how high the price must be set for subscribers to still value the product/service.

1. At what price is the product/service so expensive that you would not consider buying it?
(Too Expensive)
2. At what price is the product/service priced so low that you would feel the quality couldn't be very good?
(Too Cheap)
3. At what price is the product/service starting to get expensive, but you would still consider buying it?
(Expensive w/High Side)
4. At what price is the product/service a bargain—a great buy for the money?
(Cheap/Good Value)

PSM GRAPH



	EXPENSIVE	TOO EXPENSIVE
CHEAP	1. Indifference price point Normal price point	3. Point of marginal expensiveness (PME) Upper end of the range
TOO CHEAP	2. Point of marginal cheapness (PMC) Lower end of range	4. Optimal price point

III. Define Value Metrics

Peter Drucker famously wrote in his classic, *The Practice of Management*, “What gets measured, gets managed”. But only two in five SaaS companies (39%) actually use a metrics-based approach to set prices.¹ The rest make a judgement call (27%), copy from competitors (24%), or take a cost-plus approach (10%).² As a result, a majority of SaaS offerings are not priced according to the value perceived by subscribers. This lack of visibility can adversely impact the overall revenue potential of your offering.

The most direct way to understand the value of your product for subscribers is to somehow quantify how much the product helps their business. In other words, you need to link the perceived subscriber value with a unit of measurement. This metric should be a useful tool for both the company and the customer in terms of evaluating the effectiveness of the product.

These value metrics should be easy for the customer to understand when they are perusing your pricing tiers. They should clearly communicate the value-creation associated with the product or service, and demonstrate how the value will grow with customers’ usage over time. Some effective metrics we have seen in our practice include **number of active users** (Slack, Monday); **emails sent** (MailChimp); **storage used** (AWS, Azure); or **number of hosted domains** (GoDaddy, Hostgator). Unit metrics can be functional, output-based, or outcome-based.

Outcome-based metrics seem to be the Holy Grail, but they are often impractical and hard to measure. Think of an SaaS procurement solution that enables customers to streamline and optimize expenses—an outcome-based metric could be “\$ Expenditures Under Management.” The problem is that as your product successfully generates cost efficiencies, your company will end up capturing a smaller portion of the expenditure. Another option could be “\$ saved expenditures,” which seems attractive at first, but makes it very hard to assess the exact outcome given all potential external factors impacting savings. Both of these scenarios create potential asymmetry between you and the customer.

As a result, we recommend value metrics which are SMART: Specific, Measurable, Attainable, Relevant, Time-bound. Output-based or functional metrics are usually aligned with SMART principles, as customers are accustomed to them and they can be easily articulated. Outcome-based metrics should generally be reserved until the offerings—and the customers—mature.

¹ (Survey – OpenView Partners 2021)

² <https://openviewpartners.com/blog/saas-pricing-insights/#.YiKTLkDMLIV>

ABC Ltd chose “number of users” as an easy-to-understand functional metric and a good proxy to assess value. They chose this metric instead of “cloud storage in gigabytes” or “number of projects” (output-based), or “employee productivity” (outcome-based), as these are difficult parameters to assess, for both the company and customers. The number of users shows that employees with a customer’s company are engaged with the product and find it useful, thus demonstrating value.

However, ABC Ltd also identified certain output-based parameters, like the average number of participants per meeting and average cloud storage requirements, which are relevant metrics to create segmentation between tiers.

EXAMPLES OF GOOD-BETTER-BEST

Zoom offers Pro, Business, and Enterprise paid subscription tiers linked to an organization’s growth path, measured by a “number of licenses” metric. The number of licenses per account is capped and transitions the subscriber to the higher tier as their usage increases over time.

<p>BASIC Personal meetings</p> <p>Free</p> <p>Sign Up</p> <ul style="list-style-type: none"> • Host up to 100 participants • Unlimited group meetings for up to 40 minutes • Unlimited one-to-one meetings with a 30 hour time limit per meeting. • Private & Group Chat • 3 full-featured Zoom Whiteboards. Additional whiteboards will make previous ones read-only. <p><small>*Free, forever. No credit card required.</small></p>	<p>PRO Great for small teams</p> <p>£11.99 /month/license</p> <p>Buy Now</p> <p>All the benefits of Free, plus:</p> <ul style="list-style-type: none"> • Host up to 100 participants • Increase participants up to 1,000 with Large Meetings add-on • Group meetings for up to 30 hours • Social media streaming • 1 GB cloud recording (per license) • Unlimited, full-featured Zoom Whiteboards <p><small>*Purchase up to 9 licenses per account</small></p>
<p>BUSINESS Small businesses</p> <p>£15.99 /month/license</p> <p>Buy Now</p> <p>All the benefits of Pro, plus:</p> <ul style="list-style-type: none"> • Host up to 300 participants • Increase participants up to 1,000 with Large Meetings add-on • Single sign-on • Recording transcripts • Managed domains • Company branding • Up to 99 licenses <p><small>*Starting at 10 licenses for £159.90/month</small></p>	<p>ENTERPRISE Large Enterprise-Ready</p> <p>£15.99 /month/license</p> <p>Contact Sales</p> <p>All the benefits of Business, plus:</p> <ul style="list-style-type: none"> • Host up to 500 Participants • Unlimited cloud storage • Recording transcripts <p><small>*Starting at 50 licenses for £799.50/month</small></p>

ABC LTD EXAMPLE

	Persona 1 SME Bill	Persona 2 MID MARKET Emma	Persona 3 CORPORATE John
ABOUT	SME Bill runs a small team on a tight budget. He needs solid functionality to keep his staff from getting overloaded, without breaking the bank.	MID-MARKET Emma runs a department at a midsize company that is growing rapidly. She needs a solution that meets her needs now, but with the potential to seamlessly upgrade later.	CORPORATE John works for a multinational enterprise dealing with increased security concerns and new acquisitions. He has been allocated a substantial budget and needs a top-of-the-line solution.
GOALS	Upgrade from his homegrown workspace system	Manage rapid growth	Looking for a turnkey solution
MOTIVATIONS	Needs professional grade software	Needs to manage larger team	Needs top-notch security and a collaboration platform to support productive ways of working
FRUSTRATIONS	Tight budget	Doesn't want to have to start all over again if the company grows	Doesn't have time for poor customer service
FEATURES AND PREFERENCES (MUST HAVE VS. NICE TO HAVE)	Must Have <ul style="list-style-type: none"> • Ad-free business email • Calendar sharing • Video and voice conferencing • Messenger • Doc sharing and collaboration 	Must Have <ul style="list-style-type: none"> • Phishing and spam protection for emails • Cloud storage for high resolution docs and files • Video conference with large audience across globe 	Must Have <ul style="list-style-type: none"> • Secure emails • Archive and search emails and docs • High video and sound quality
	Nice to Have <ul style="list-style-type: none"> • Digital whiteboards • Support advanced doc types 	Nice to Have <ul style="list-style-type: none"> • Meeting recording • Invite guests in chat rooms • Enhanced security features 	Nice to Have <ul style="list-style-type: none"> • Unlimited storage • Record meeting participation
OPTIMAL PRICE POINT (OPP) (MARKET ENTRY OR PENETRATION)	\$3.5	\$7.5	\$12.5
INDIFFERENCE PRICE POINT (IPP) (REVENUE MAXIMIZATION)	\$4.5	\$9	\$15
RANGE OF ACCEPTABLE PRICES (PROFIT MAXIMIZATION OR SKIMMING)	\$3-5	\$7-10	\$12-15
VALUE METRICS	# of users	# of users	# of users

Design tiers to address the needs of your customer segments

The subscriber personas, WTP, and value metrics become the foundation for the GBB tiers. Use these factors to build a perceived value matrix (see figure below). A feature with high perceived value but low WTP will be table stakes (Good), whereas a high-value feature with a high WTP will represent a differentiated offering (Better/Best).

On the other hand, a low-value feature with a high WTP represents a premium Add-On, which is an option that one can subscribe to, alongside one of the offering tiers. If these features were included in a tier, a small number of subscribers would extract too much value for too little price, while others would not extract any value from them and would feel like they were getting ripped off.

Finally, low value and low WTP features are Throwaways, possibly suitable for a Freemium or Free Trial offer.

You also need to consider market strategy when evaluating features. You may value features differently based on whether you are pursuing Market Penetration, Revenue Growth, Skimming, or Customer Retention (see the Deploy section for more information on strategy-specific pricing). This will require some trade-offs. For example, if the objective is to achieve high growth there will be a balance between high lifetime value due to high WTP vs. the cost of acquiring the persona.

Execution is also important. A well-designed pricing page with user-friendly layout and clearly laid out pricing is an opportunity for companies to drive their pricing and packaging narrative.

Company ABC Ltd identified three target personas based on surveys, valued features, and WTP. After ring-fencing the features within each of the three personas, a relative preference matrix emerged.

Persona 1 (SME Bill) managing a relatively small team, only needs basic table stake features (**Workspace Essentials**).

Persona 3 (Corporate John), managing multi-country, cross-team alignments, with a need for more stringent security rules, is ready to pay a premium (**Workspace Premium**) for enhanced security and attendance tracking.

The Workspace Standard tier likely fulfills all the necessary requirements for Persona 2 (Mid Market Emma).

Note the simple (self-explanatory) naming convention for each tier, which conveys a clear narrative and avoids any ambiguity or confusion. This along with the pop-out recommendations for the best value for money or the most popular tier guides the subscriber to make informed decisions and help generate more click-throughs on that page.

DESIGN TIERS TIED TO SUBSCRIBER PERSONA

Figure 1

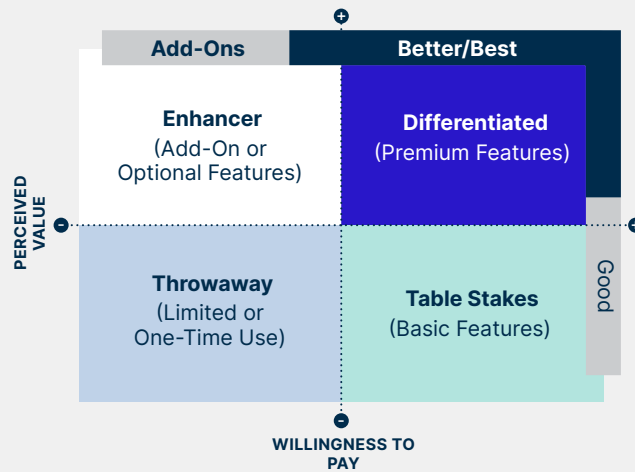
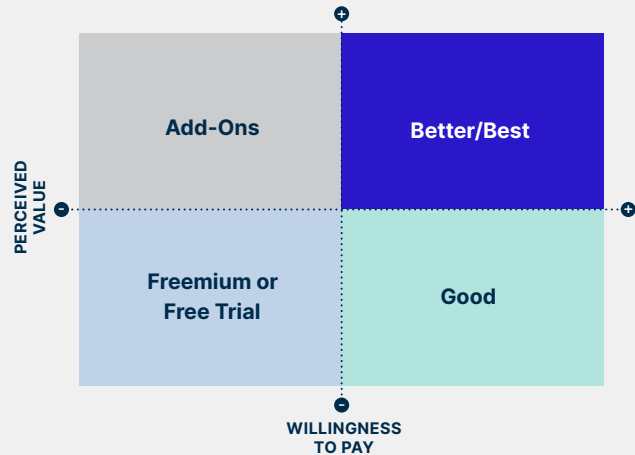


Figure 2



Add-Ons	Better/Best	Freemium or Free Trial	Good
<ul style="list-style-type: none"> Email encryptions Background noise cancellation during video or voice calls Unlimited storage Advanced security and compliance controls 	<ul style="list-style-type: none"> Email retention, archive and smart search 150-500 video and voice conference participants plus recording, attendance tracking Digital white boarding, noise cancellation and recording Increased cloud storage of 1-5TB per user and shared drives for target audiences/ teams sharing Advanced chat rooms Enhanced security and management Custom branding for documents and form templates 	<ul style="list-style-type: none"> Business email (up to 10 users) Phishing and spam protection Video and voice conference with 10 participants Secure cloud storage of 2GB per user supporting different file types Document and presentation sharing 2-step verification 	<ul style="list-style-type: none"> Ad-free business email Phishing and spam protection Video and voice conference with 100 participants International dial-in numbers Secure cloud storage of 50GB per user supporting different file types Team messenger Document and presentation sharing 2-step verification

Let's look at how ABC Ltd applied the price variability coefficient (see **SPOTLIGHT: GBB Data-driven guardrails** for more on this topic). ABC determined that the Essentials Tier should be \$6/user/month. The Standard and Premium tiers were \$10 and \$18, respectively. Based on the price variability coefficient, the Good-Best

ratio falls within market standards, whilst the Good-Better is too low. They can decide to increase the price point for 'Standard' to \$12/user/month or assess if their packaging needs further fine-tuning based on their strategy.

EXAMPLES OF GOOD-BETTER-BEST

Zoom offers optional add-on plans for audio conferencing, large meetings, premier support, etc.

Optional Add-on Plans

*You must have at least one Licensed user to purchase these Add-on plans.

Audio Conferencing

Starting at £1,200 per year

Audio Conferencing starts at £1,200/year and is billed based on the [rates](#) per call per country. If you exceed the £1,200/year commitment for calls, you will be charged overage usage based on the [rates listed](#).

- ✓ All paid plans come with local toll numbers, but Audio Plan allows you to add Call Out, global Toll-free and local dial-in for premium countries
- ✓ No charge to your participants to call in from any device
- ✓ Easily select one or multiple countries for Toll-free call-in

[Buy Now](#) [Learn More](#)

Cloud Storage

Starting at £384 per year

- ✓ Store, stream and download your video recordings from the Zoom Cloud
- ✓ MP4 or M4A file formats available
- ✓ Storage options include up to 3TB/month

[Buy Now](#)

Premier Developer Support

Tiered support packages to help minimize risk and reduce downtime

- ✓ Prioritized technical resources & committed developer work hours available through tiered plans
- ✓ Quickly troubleshoot and resolve development issues within guaranteed target response times
- ✓ Directly communicate and easily manage open support cases via Zoom's secure Developer Support Portal
- ✓ Get expert assistance with your developer administration needs including support for App Marketplace submissions, releases, and maintenance

[Learn More](#)

Large Meetings

Starting at £480 per year

- ✓ Increase participants capacity for your meetings plan
- ✓ Include up to 500 or 1,000 interactive participants in a meeting
- ✓ Monthly and annual billing options available

[Buy Now](#)

Premier Support

Additional support packages to help minimize risk and reduce downtime

- ✓ Minimize downtime and get support issues resolved quickly with priority response
- ✓ Connect directly with support engineers to diagnose problems via phone, chat, or email
- ✓ With Premier+, a Technical Account Manager can be assigned to ensure issue resolution and automated escalation

[Learn More](#)

Workspace:	Essentials \$4.5/user/month (Good)	Standard \$8.5/user/month (Better)	Premium \$13.5/user/month (Best)
		Everything in Essentials, plus	Everything in Standard, plus
BUSINESS EMAIL AND CALENDAR	<ul style="list-style-type: none"> Customer and secure business email Shared calendars 		<ul style="list-style-type: none"> Smart search
VIDEO AND VOICE CONFERENCING	<ul style="list-style-type: none"> 100 participants Digital whiteboarding 	<ul style="list-style-type: none"> 150 participants Noise cancellation Meeting recording Polling and breakout rooms 	<ul style="list-style-type: none"> 500 participants Attendance tracking
SECURE CLOUD STORAGE	<ul style="list-style-type: none"> 50GB per user Support 100+ file types 	<ul style="list-style-type: none"> 1TB per user Shared drive for teams 	<ul style="list-style-type: none"> 5TB per user
TEAM MESSENGER	<ul style="list-style-type: none"> Team messenger 	<ul style="list-style-type: none"> Guest access 	
DOCUMENT SHARING AND COLLABORATION	<ul style="list-style-type: none"> Document, Notes, Slides Writing assistance 	<ul style="list-style-type: none"> Custom branding for documents and form templates 	
SECURITY, MANAGEMENT & SUPPORT	<ul style="list-style-type: none"> 2-step verification Endpoint management Standard support 	<ul style="list-style-type: none"> TB per user Enhanced support 	<ul style="list-style-type: none"> Digital vault to retain, archive and search data Advanced endpoint management

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Good-Better is too low. They can decide to increase the price point for 'Standard' to \$12/user/month or assess if their packaging needs further fine-tuning based on their strategy.

Spotlight: GBB Data driven guardrails

WHAT ARE THE RIGHT PRICE RATIOS BETWEEN GBB TIERS?

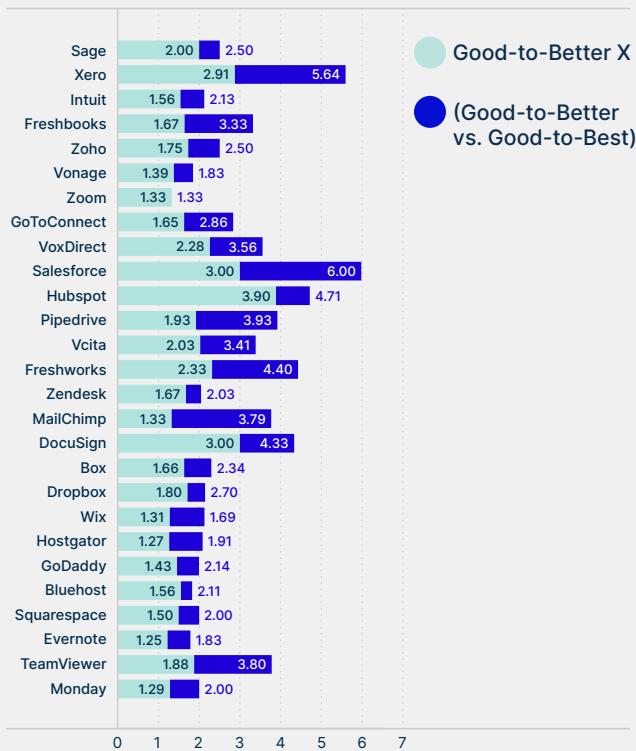
We analysed the pricing of leading B2B SaaS companies (n≈27) in industries that included Accounting, Communications, CRM, Marketing, eSignature, File Hosting, Web Hosting, and Work Management. Based on this analysis, we have defined a price variability coefficient that operates across the three GBB tiers. This coefficient forms a guardrail that can be used as a reference point once you have created your own GBB tiers and price points.

To provide a meaningful choice for the subscriber, our research indicates that the average measure of variability between Good-Better pricing should not exceed 2X (~1.88X), whereas the Good-Best ratio should see a higher variability of 3X (~2.99X).

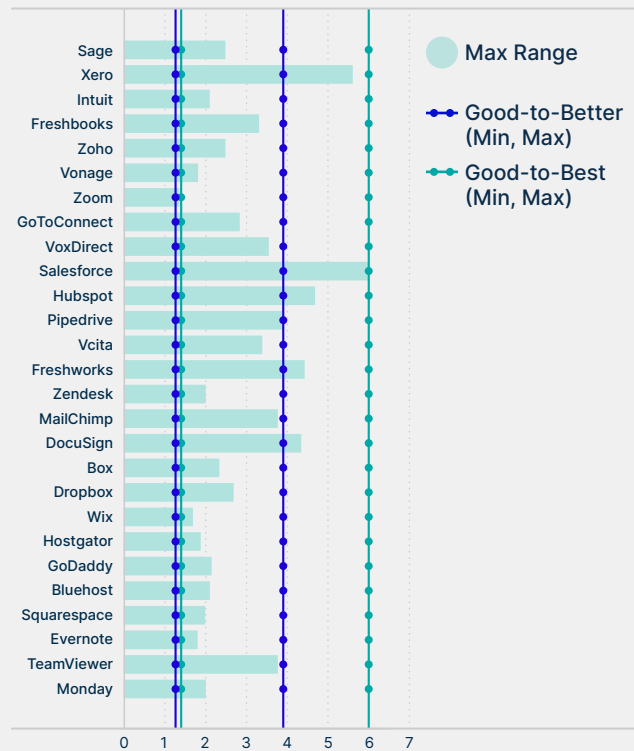
The average range guardrails are a starting point to configure subscription pricing and packaging.

Interestingly, there was a correlation between the measure of variability and product categories. For example, Web hosting companies like Wix, GoDaddy, and Squarespace fell well within the average range (Good-Better ~1.4X and Good-Best ~2X). On the other end of the spectrum, companies selling CRM solutions (e.g., Salesforce, Hubspot, Pipeline) exceed that range, with an average Good-Better range variability of ~2.6X and Good-Best around ~4.5X. This deviation can be explained by the increased maturity in this product category and the intense competition with SaaS CRM peers at the lower end of the market.

STACKED RANGE



MIN-MAX RANGE



Zuora analysed pricing and packaging pages for leading B2B SaaS companies in FY21

Excludes companies which are not purely GBB models. For example, HR and Payroll solution providers like Gusto and Deluxe offer a blend of tiered pricing along with monthly min platform fee

Excluded companies offering premium enterprise tiers with pricing only available on-demand (not visible on pricing page) For example, e-signature solution provider PandaDoc

Deploy pricing strategy based on your organizational maturity and market positioning

I. DEPLOY IN-SYNC WITH YOUR GO-TO-MARKET STRATEGY

Pricing and packaging is an iterative process. Deployment may differ based on market conditions and business maturities. A useful way to tailor the three GBB tiers is with a ratio that represents the anticipated revenue for each tier.

Penetration or Revenue Monetization Play (WIN): Minimize adoption friction of your offering to successfully acquire customers.

For this play, the revenue ratio across GBB tiers may range from 50:40:10 to 70:20:10, as you offer more value-added features at a lower price point.

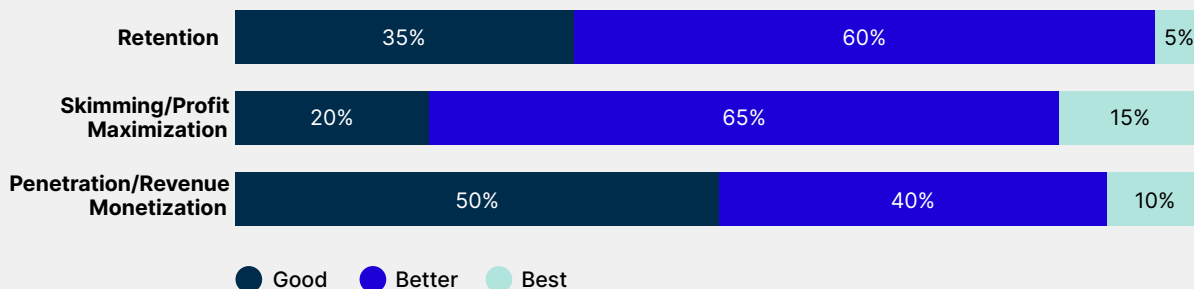
Skimming or Profit Maximization Play (GROW): Build customer stickiness and focus on land-and-expand strategy. Pivot the customer from comparison with competition mentality to incremental value across various tiers.

For this play, the ideal GBB revenue ratio is 20:65:15. The objective is to maximize profit before competitors enter the market. Typically, price skimming applies to new, innovative products. With time, as the product becomes less novel and more accessible, the price steadily declines.

Retention Play (RETAIN): Minimize churn among existing customers, consolidate market position, and/or counter the threat from competition.

In this play, the GBB ratio should be close to 35:60:5.

PRICING AND PACKAGING STRATEGY



II. DEPLOY AN AGILE MONETIZATION APPROACH FOR CONTINUOUS PRICE ITERATION

Going live with pricing tiers is the beginning, not the end, of the pricing process. As the market evolves over time, so does subscriber buying behaviour. Hence, it is essential to keep pace with the changing subscriber value perception over time. This necessitates an agile approach, with pricing catalog reviews on a continuous basis.

As a best practice, market leading SaaS companies typically review their tiers every 90-180 days. This doesn't mean a full revamp of the pricing tiers. It could mean adding new features, offering premium features for lower tiers ([biphasic monetization](#)), or creating new tiers.

GBB VALUE MATRIX (VALUE VS. WTP VS TIME)

Figure 1

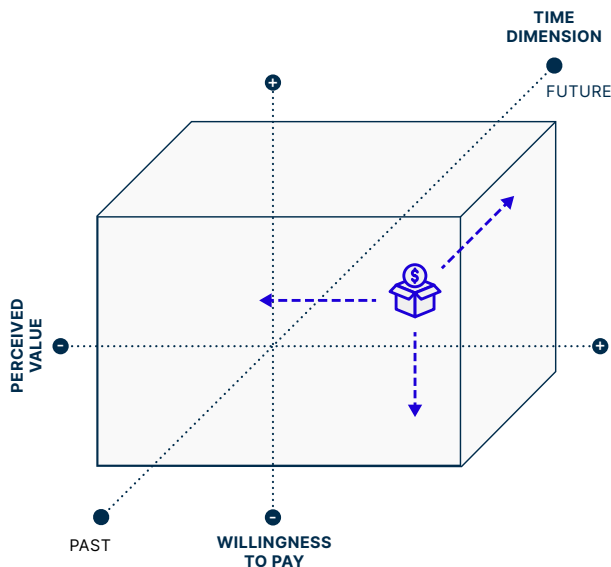
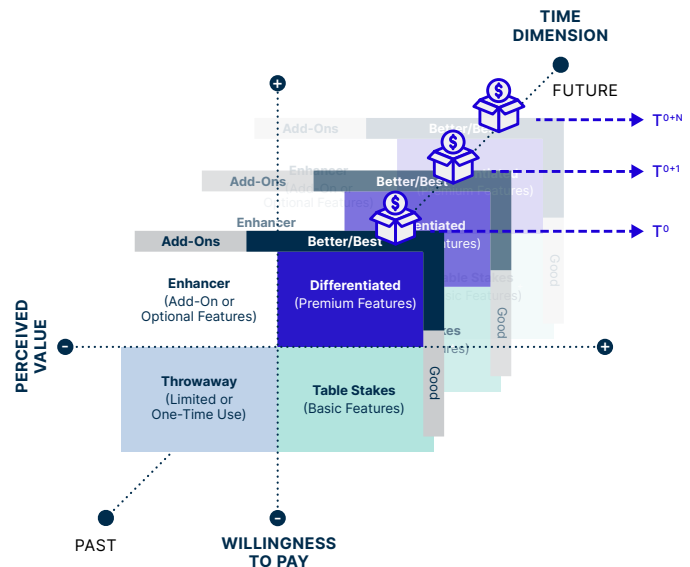


Figure 2



CONTINUE ITERATING— WITH YOUR CUSTOMERS

The 3D P&P Framework is a simple yet effective tool for navigating the sea changes your business will encounter when moving to subscription pricing and packaging. Packaging needs to entice new customers, but also encourage retention, which is the lifeblood of subscription businesses. Especially during the launch of new subscription offerings, this means companies need flexibility to capture a wide range of target audiences, while also building in space for their subscribers to upgrade or downgrade down the line.

When combined with a solid definition of your target customers, an understanding of what they value, and what they are willing to pay,

you should be off to a solid start with GBB pricing. Obviously, there will be exceptions to the guardrails, and companies should always expect to have to iterate and refine their product and pricing propositions based on customer feedback post-launch.

And this is a key point: you need to always stay in beta with your pricing! Customers change, the market changes, your company's capabilities change. But that's the strength of the subscription model: it gives your business the built-in flexibility to stay agile over time. As long as you maintain a laser focus on customers, your pricing and packaging should become a strong revenue driver for your business.



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