Freemium Pricing for SaaS: Optimizing Paid Conversion Upgrades

The following is a guest post by Rishi Shah, Co-Founder of Digioh and 500 Startups Mentor. Join his newsletter and get his eBook "10 Paying Customers in 10 Days" for free.

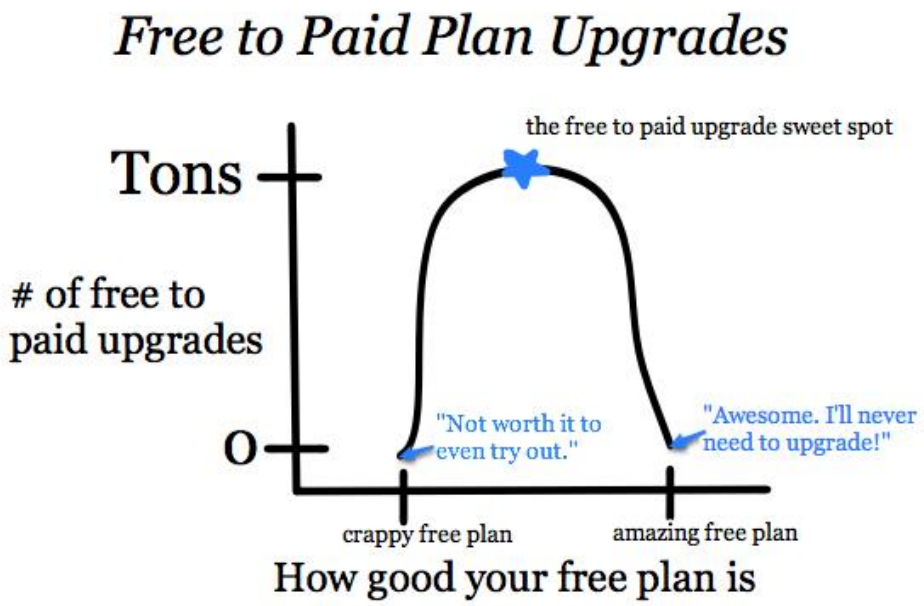
I've been building a new product and I'm almost ready to launch it. However, I'm having a really hard time figuring out the right pricing structure so I'm going to analyze my favorite Freemium SaaS businesses.

Here is what I know I want:

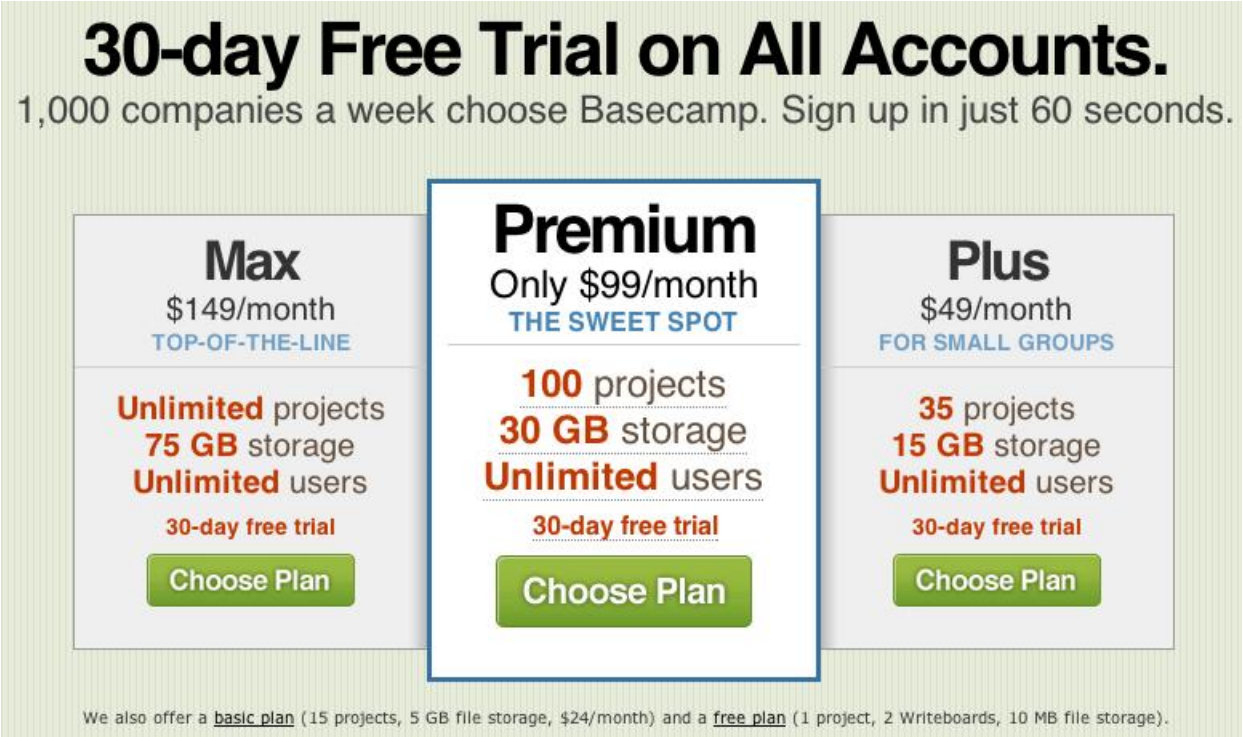
1. A free plan. Since we are just starting out I really want people to use the product for free (no credit card required). I'm okay with killing off the free plan if it isn't working economically (existing free users would be grandfathered in).
2. It is a hosted product so it will be recurring revenue. There will be a monthly fee for the paid packages (with an option to pay yearly upfront for a discount).
3. Based on many many studies the paid packages will end with a "9". So the packages will be priced with that in mind (i.e. $11.99, $24.99, etc.)
4. I want to leverage our free plan to get more referrals. For example the free members can earn more features or storage by referring a friend or posting a status update with our link in it. Pretty much exactly what dropbox and appsumo does.

Questions:

1. How generous should our Free plan be?
2. What limits should we place on it?
3. We need our free plan to be something amazing so people will sign up. However we don't want it to be so amazing that they don't ever need to upgrade.



I decided to take a look at some Freemium SaaS company that I know of and analyzed what I think they did well at.



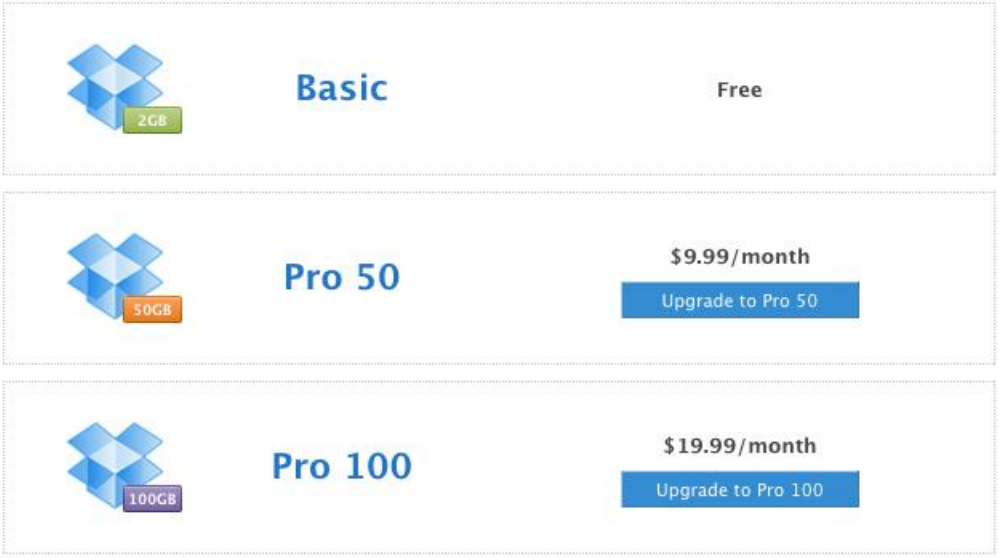
I'm going to start with 37Signals (the godfather of small business SaaS). This was their pricing page before their relaunch. I like how they have the free plan but don't promote it at all. They don't mention it on their homepage and it is hidden at the bottom of their pricing page. A few years back they heavily promoted their free plan and said that 98% of all accounts were on the free plan. Check out their call to action on their homepage. They don't even mention the free plan. They do mention a 30-day free trial though.

Some insights (and assumptions) from 37signals' pricing strategy:

- They really focus on getting paid customers.
- The # of Free-to-Paid Upgrades is probably really low. They probably get most of their paying customers right at sign up which is why they have a 30-day free trial on paid packages and have their call-to action towards paid sign up (not the free plan).
- I think a great way to launch is having an amazing free plan and once you start getting bigger focus your homepage on the paid signups.

Wufoo is probably my favorite SaaS business. In a presentation about SaaS he says:" always always display your highest priced package to the left and your cheapest package to the right". I made this switch for Flying Cart and he was right about it. Here is what I like:

- Highest priced on the left, the reasoning is customers read from left to right. The $14.95 price tag doesn't seem so bad when you just read the $199.95 price.
- The Free plan is perfect. Just enough to start (not super limited) but I am happy to pay once I have a little bit of success. This is what I call investing in your customers.
- I also like how they have multiple thresholds from the free to the paid plan. Notice how the "Bona Fide" $29.95/mo plan has 5 users and the free plan only has 1 user. If you have 5 users you must be a bigger company and can afford the cost. This also gives a chance for Wufoo to get paid customers right from day #1.
- I really like how they don't offer a 30-day free trial. They have a free plan so there is no need to have a free trial as well, allowing them to pull in cash as soon as possible.



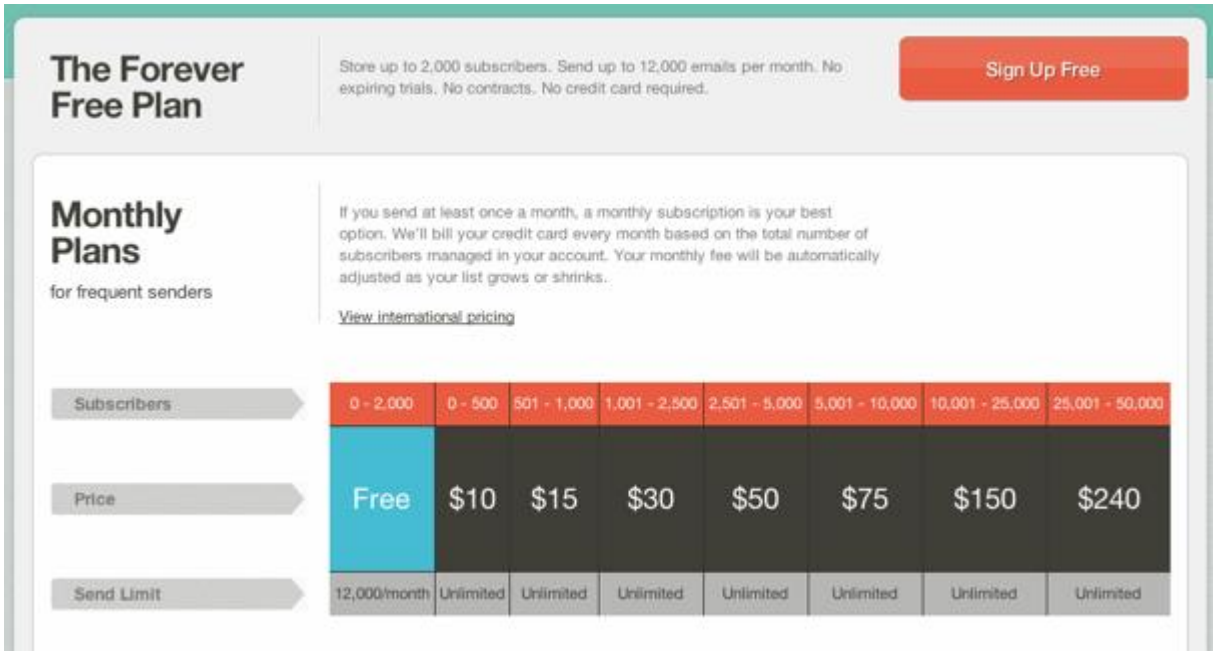
Above is a screenshot of the DropBox Pricing Page. They don’t promote the pricing page on the homepage at all.

Here is what I like:

- Heavily promote their very generous free plan on their homepage - they don't show any prices, just a video and a download button
- They leverage their free users to get more customers - amazing referral program. You can earn more space by referring people.
- Up-sell customers after many months of usage and dependence on their product. I bet they have really good lifetime value on their paid customers.
- My assumption is that DropBox has an amazing free account to paid account upgrade ratio which is why they focus on getting you to use the product as soon as possible.

I'm including Intuit but I really don't like it at all. **This is exactly what I don't want.**

- Very confusing. Each pricing tier looks like it could be a different product.
- An Asterisk next to their prices? Are you kidding me. Whenever I see an asterisk I get really scared that the price is going to jump after the first month.
- The "Try it Free" is an okay call to action. The word "Try" makes me think I'm getting roped into something.
- The reason I think this works is because they have a really strong brand value. People trust Intuit and they have a solid product for business accounting.



MailChimp is similar to dropbox. They have an amazing free plan.

- Mailchimp puts a "MailChimp" ad in the footer of the newsletter promoting their services and allowing the end user to earn more credits with them.

Carbonmade has one of the most fun pricing pages. Here is what I like:

- The top package is super cheap. $12/mo - wow. That's it and I get it all
- How they display Free vs. Paid. The Paid package seems so much more fun and cool. I feel like a total loser clicking on the "Meh" package. I would rather just pay the $12 and feel better about myself. Other companies do this by highlighting their middle package with a "Best Option" headline.

Experts exchangeis a developer focused question and answer service. So if you need a coding question answered you can sign up and a real live person will email you right back. This is sometimes better than Stack Overflow or Quora because at times no one answers your questions. The Experts Exchange isn't your traditional Freemium business. When you sign up you are signing up to a paid plan (with a 30 day free trial). However when you become a customer you are given the opportunity to answer questions, the more questions you answer the cheaper your member ship becomes. This is a really interesting freemium approach. Their "Free" customers are helping Experts Exchange get paid customers. What I like:

- The plans get cheaper if you pay for multiple months
- They allow you to earn Free. It isn't given.

So what am I going to do?

I'm going to take the best from each one:

1. Launch a free plan that is amazing. We aren't the first service that will be doing what we do so we need to go the Mailchimp route.
2. Allow people to earn more features and storage if they share our service (similar to dropbox)
3. Make our paid plans feel amazing by adding a fun icon next to them (similar to carbonmade but won't be as awesome)
4. Make our highest paid package displayed to the left and offer multiple barriers so we can take payment on day one for bigger companies (similar to wufoo)
5. Learn from our data after 7 months and either de-emphsize our free plan (like 37Signals) or over emphasize it (like dropbox).

Here is what my current pricing page looks like:

	Lite	Pro	Pro Plus
	Free	$9.99/month	$14.99/month
	Sign Up	FREE TRIAL	FREE TRIAL
Number of Transactions	10	Unlimited	Unlimited
Files	1	10	Unlimited
Data Transfer	250 MB	1 GB	10 GB
Maximum File Size	50 MB	500 MB	2 GB
Real Time Analytics		✓	✓
Custom Order Pages		✓	✓
Phone Support			✓
	Sign Up	FREE TRIAL Buy Now	FREE TRIAL Buy Now

What do you think of my freemium pricing analysis? Any tips or tactics you've learned from your own freemium pricing experience?