THE 2021 STATE OF USAGE-BASED PRICING REPORT

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WE INVESTIGATED HOW LEADING SAAS COMPANIES PRICE THEIR PRODUCTS IN 2021

- Software buying has evolved – and SaaS companies are increasingly moving to a usage-based pricing model to stay ahead of the curve.
- OpenView has been studying how the top SaaS companies have succeeded with this next evolution in software pricing.
- Now we're investigating whether usage-based pricing is being adopted across the broader SaaS market, as well as how usage-based companies perform relative to their traditional subscription peers.

Who we surveyed

- Data comes from OpenView's 2021 Financial & Operating Benchmarks survey, conducted in July-August 2021.
- Nearly 600 SaaS companies participated in the survey.
- Respondents were primarily the CEO/Founder (50%) or CFO/VP Finance (30%).

THE REPORT ENCOMPASSES MULTIPLE FLAVORS OF USAGE-BASED PRICING

Usage-Based Pricing Models

Largely usage-based pricing model

Revenue is mostly generated based on a customer's product consumption or active usage. Customers usually have the choice between a pay-as-you-go option, committed volume plan, or a hybrid of the two.

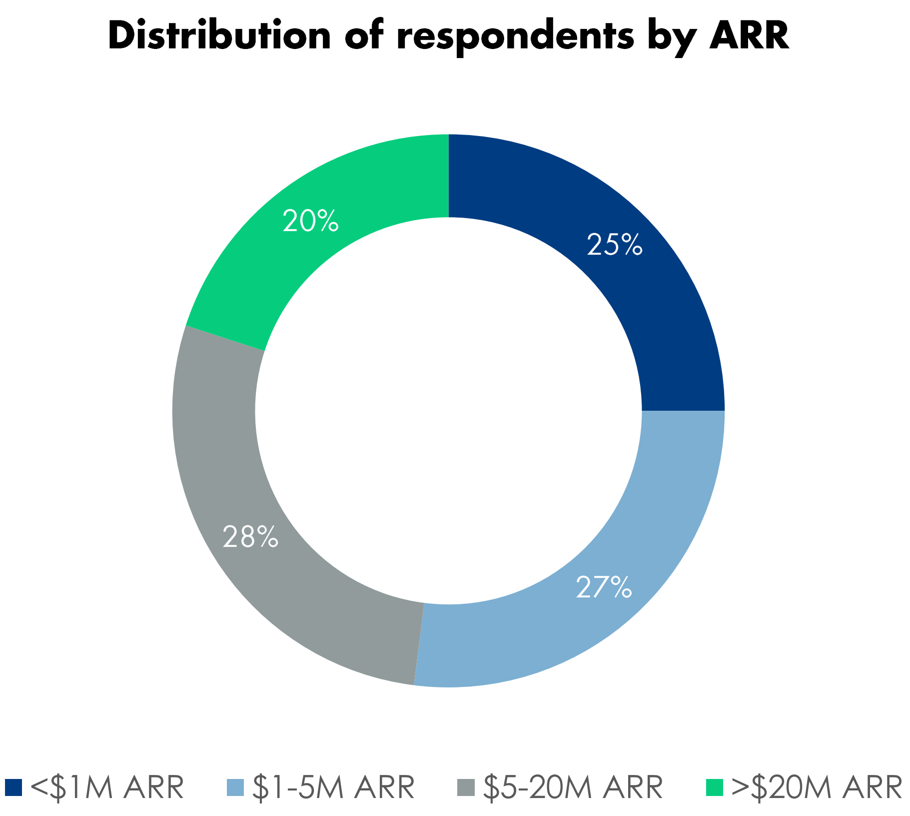
Usage-based subscription tiers

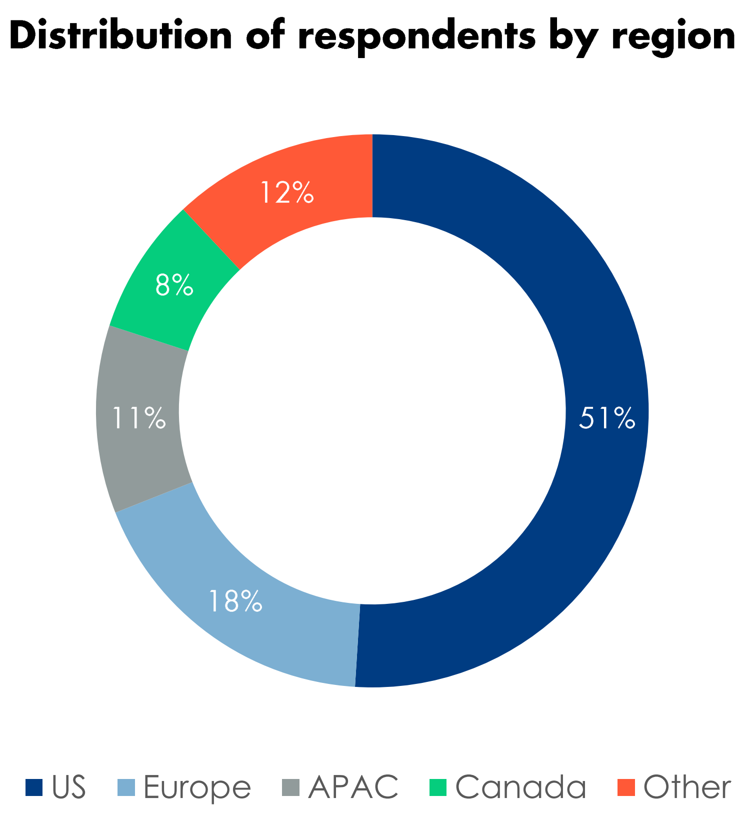
Revenue is mostly generated on a subscription basis. Subscriptions include some combination of product consumption, functionality, and services. This is often an entry point into usage-based pricing.

No usage-based pricing

Revenue is almost exclusively generated on a subscription basis. Pricing is tied to user seats, company size, functionality, services, or other factors as opposed to product consumption behavior.

THIS YEAR'S SURVEY INCLUDED ALMOST 600 SAAS COMPANIES





Source: OpenView 2021 Financial & Operating Benchmarks Survey

TAKEAWAYS: USAGE-BASED PRICING IN 2021

Adoption: Usage-based pricing has quickly gone from fringe to mainstream.

- 45% of SaaS companies say they have usage-based pricing, up from 34% last year.
- Usage-based companies are split in how they incorporate usage in their pricing with half adopting a largely usage-based or pay-as-you-go model and the other half adopting usage-based subscriptions.

Profile: Usage-based companies can now be found in all layers of the tech stack.

- While usage-based models have become the norm in infrastructure (ex: AWS, Azure, GCP), they're now found in middleware and application software as well.
- Enterprise-focused companies are somewhat more resistant to usage-based pricing as large customers still ask for the predictability of subscriptions.

Performance: Usage-based companies continue to outperform their peers.

- The fastest growing companies are especially likely to leverage usage-based pricing, which coincides with best-in-class CAC payback and Net Dollar Retention (NDR).

Operations: Usage-based pricing is a company-wide effort, not a pricing strategy.

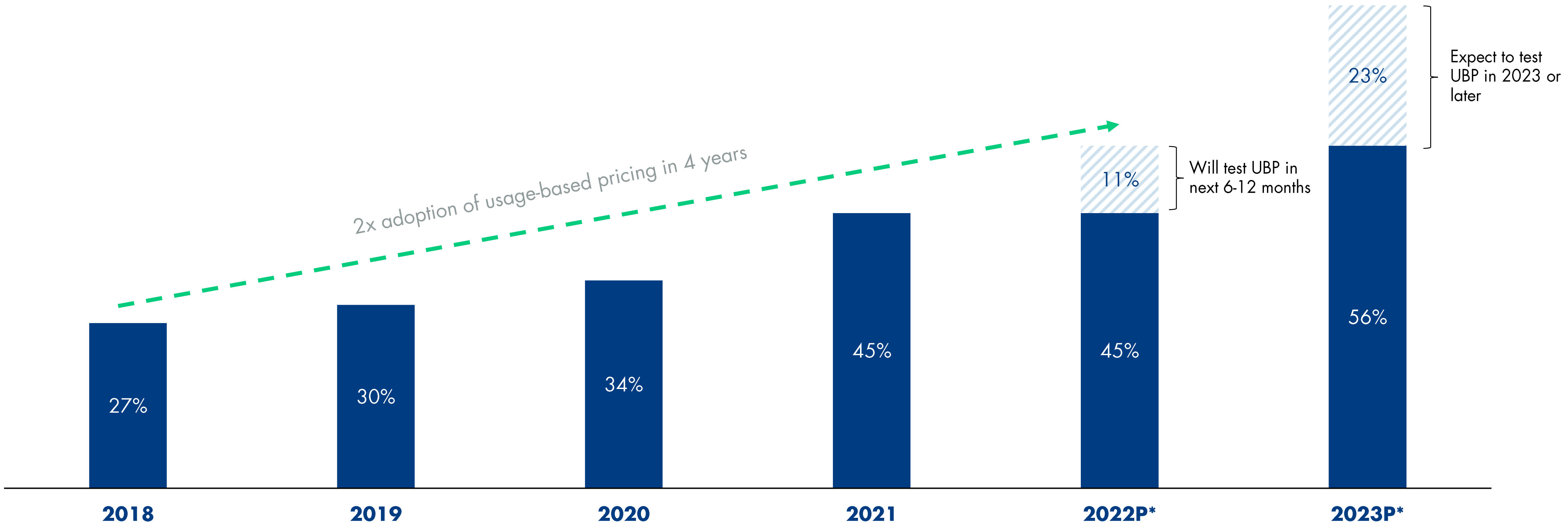
- The best usage-based companies reorient every team towards customer success.
- They often treat R&D – not just sales and marketing – as a revenue-generating expense.

ADOPTION

USAGE-BASED PRICING HAS QUICKLY GONE FROM FRINGE TO MAINSTREAM

USAGE-BASED PRICING IS GOING MAINSTREAM

Usage-based pricing adoption over time



Source: OpenView 2021 Financial & Operating Benchmarks Survey ***P=Projected**

WHY: SOFTWARE BUYING HAS EVOLVED

	1990s	2000s	TODAY
Infrastructure	Data Center	Cloud	Connected Cloud
Buyer	CIO	Executive	End User
Pricing	Large upfront purchase	Recurring annual purchase	Start for free, pay later as usage grows
Distribution	Sales-led growth	Marketing-led growth	Product-led growth

USAGE-BASED REVENUE MODELS ADDRESS THESE CHANGES IN BUYING BEHAVIOR

Benefits of a usage-based model

Allows the customer to start at a low cost, minimizing friction	Google Cloud Platform offers $300 of free credits to every developer account. GCP is at a >$10B annual run rate.
Directly links the price paid with the value received	HubSpot charges based on a customer's leads. This links HubSpot's revenue with their customers' GTM success.
Allows more users to access the product within an account, making the software more ubiquitous and seeding new use cases	AUDITBOARD AuditBoard charges based on # of controls rather than users. They generate 10x the number of users in an account compared to legacy SOX software.
Expands TAM by making the product more accessible while uncapping the potential upside	aws AWS has been able to reach traditionally cost-conscious SMB and middle-market customers. >1M customers to date.

TODAY'S SOFTWARE TRENDS MANDATE CHARGING BASED ON USAGE, NOT USERS

Automation

Software increasingly automates manual processes. The more successful a product is, the fewer user seats a customer needs. **Seat pricing doesn't scale with the value of automation.**

zapier

Zapier reports 61% of all knowledge workers already rely on automation.

AI

AI takes automation a step further, eventually eliminating the need for whole teams of people for ongoing tasks. **Monetization can no longer be tied only to human users of a product.**

databricks

Databricks has seen over a million downloads per month for its machine learning product.

API

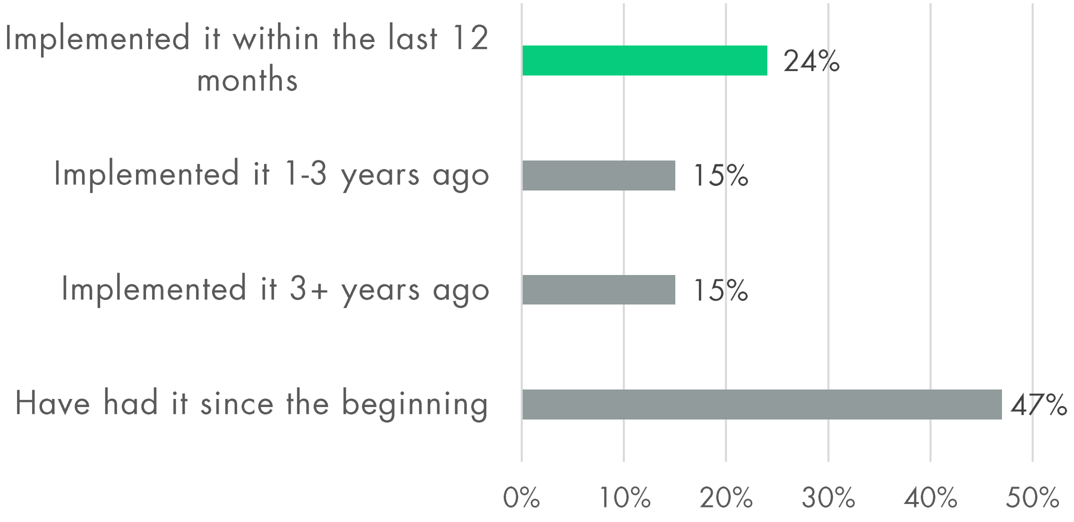
For many of the fastest growing software companies, the value is in the API—software talking directly to other software—rather than the UI. **There doesn't need to be a user to see value.**

twilio

In 2019 Twilio processed 600 billion API-based transactions.

MANY COMPANIES INTRODUCED NEW USAGE MODELS IN 2021

When companies adopted a usage-based pricing model



Source: OpenView 2021 Financial & Operating SaaS Benchmarks Survey

- It's not just your imagination – usage-based pricing is everywhere in 2021.
- 24% of companies with usage-based pricing have implemented it in just the last 12 months. By comparison, only 15% had implemented it in the two previous years.
- Those who are new to usage-based pricing tend to start with usage-based subscription tiers.

BOTH STARTUPS AND ESTABLISHED PLAYERS ARE PIVOTING THEIR PRICING MODELS

"Because our [seat-based] pricing kept our product from fitting naturally into their workflows, customers had to contort themselves to work with us. **Forcing our customers to make trade-offs between their testing strategy and our pricing mechanics was the last thing we wanted**."

– Mohammed Coovadia, VP of Customer Success & Sales at Cypress

"**At New Relic, we believe the reason that a consumption model is the way forward for software is because it changes the fundamental nature of the relationship between the vendor and the customer**; the vendor understands that if they don't build great products that customers enjoy using, they won't get paid."

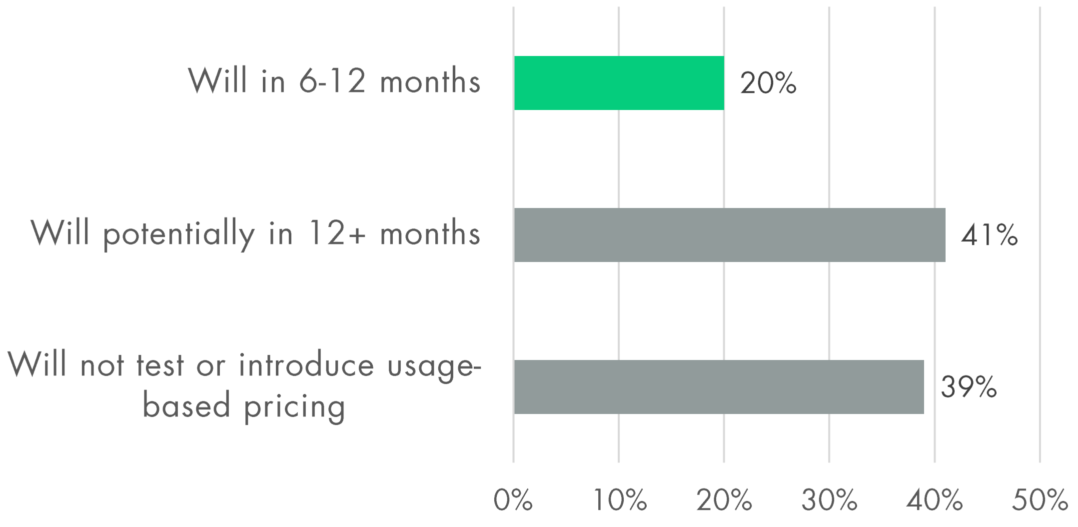
– New Relic Q3 FY21 Investor Letter

"At the end of September, **we will launch a new pay-as-you-go consumption model called Flex.** It matches the customer's cost with their usage. Flex is an important new way to purchase from us as we evolve our business models to offer more choice and flexibility."

– Andrew Anagnost, CEO of Autodesk

THE USAGE WAVE ISN'T SLOWING DOWN IN 2022

Plans to launch or test usage-based pricing in 2022

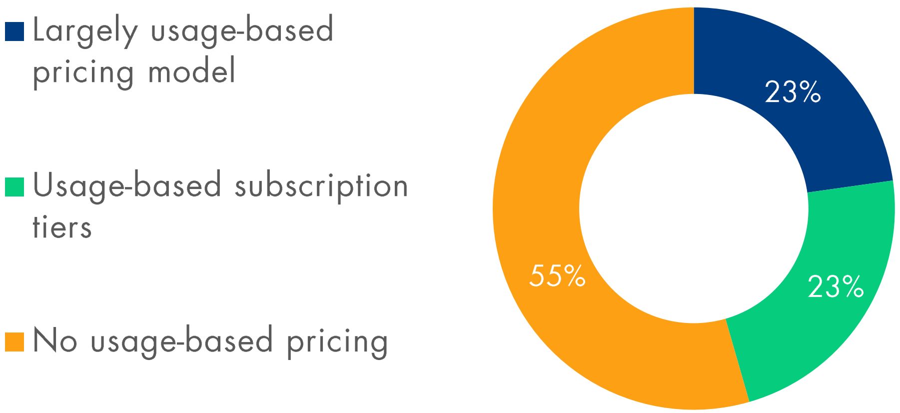


Source: OpenView 2021 Financial & Operating Benchmarks Survey

- Among the software companies that do not have usage-based pricing today, 61% expect to test or introduce it in the future.
- Look out for a number of pricing announcements in the near future: 20% of these companies say they plan to test or introduce usage-based pricing in the next 6-12 months.

COMPANIES ARE SPLIT ON HOW THEY INCORPORATE USAGE IN THEIR PRICING

Adoption of usage-based pricing



Source: OpenView 2021 Financial & Operating SaaS Benchmarks Survey

- Nearly half of SaaS companies now say they've adopted usage-based pricing.
- Roughly one-quarter have a largely usage-based or pay-as-you-go pricing model, analogous to leading companies like Snowflake, Twilio, and AWS.
- The other one-quarter have adopted usage-based subscription tiers, analogous to companies like HubSpot and Zapier.

A USAGE-BASED REVENUE MODEL MIGHT NOT BE OPTIMAL FOR YOU AND YOUR CUSTOMERS

When usage-based pricing works

- **Success-based:** Usage aligns directly with customers' business outcomes, allowing you to share in their success.
- **Sticky:** Product is highly sticky once it's adopted, with usage consistently increasing over time.

Communication API business Twilio finds that developers can quickly prototype ideas and develop product-ready applications. Developers pay once the app is live with customers—which they don't want to undo.

- **Customer-centric:** Customers prefer the flexibility to only pay based on what they use.

When it doesn't work as well

- **Taxi-meter effect:** Usage is discouraged when customers feel the marginal cost of consumption.

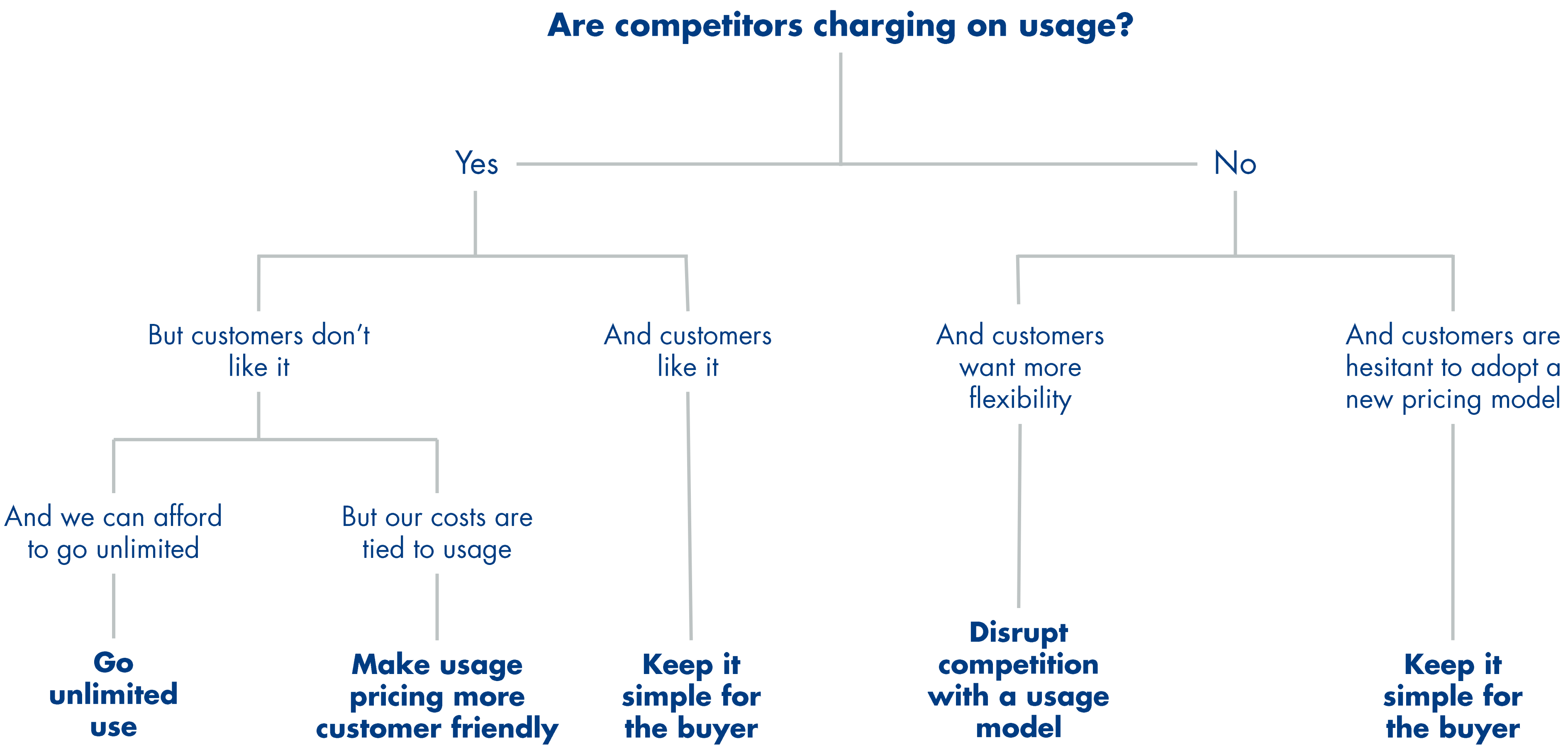
Hired found that recruiters only sent them a small share of their open roles when pricing was pay-per-hire. Unlimited models led to better adoption of the platform.

- **Variability:** Usage is highly variable or episodic.

In some cases (see Eventbrite), usage-based pricing helps acquire customers with a one-off use case, but this revenue may not be viewed as consistent or recurring revenue.

- **Customer concerns:** Customers are less savvy technology buyers and demand a simplified buying experience.

HOW TO DECIDE IF USAGE-BASED PRICING IS RIGHT FOR YOU



PROFILE

USAGE-BASED COMPANIES CAN NOW BE FOUND IN ALL LAYERS OF THE TECH STACK

USAGE-BASED SAAS COMPANIES CAN BE FOUND IN ALL LAYERS OF THE TECH STACK

Infrastructure

snowflake
Google Cloud
mongoDB
elastic
DATADOG
aws
DigitalOcean
fastly
cy
CLOUDFLARE
Azure
New Relic.
sumo logic
confluent

Middleware

stripe
twilio
PLAID
zapier
Square
Auth0
project44
MessageBird
SendGrid
databricks
POSTMAN
algolia
attentive
dataiku
Postscript

Application

shopify
slack*
HubSpot
KLAVIYO
toast
eventbrite
ServiceTitan
Chargebee
Segment
MailChimp
MINDBODY
INTERCOM
yotpo.
PROCORE
Checkr
drip
AppDirect

*Through Slack's fair billing policy, customers only get billed for what they use

COMPANIES OF ALL SIZES ARE ADOPTING USAGE MODELS

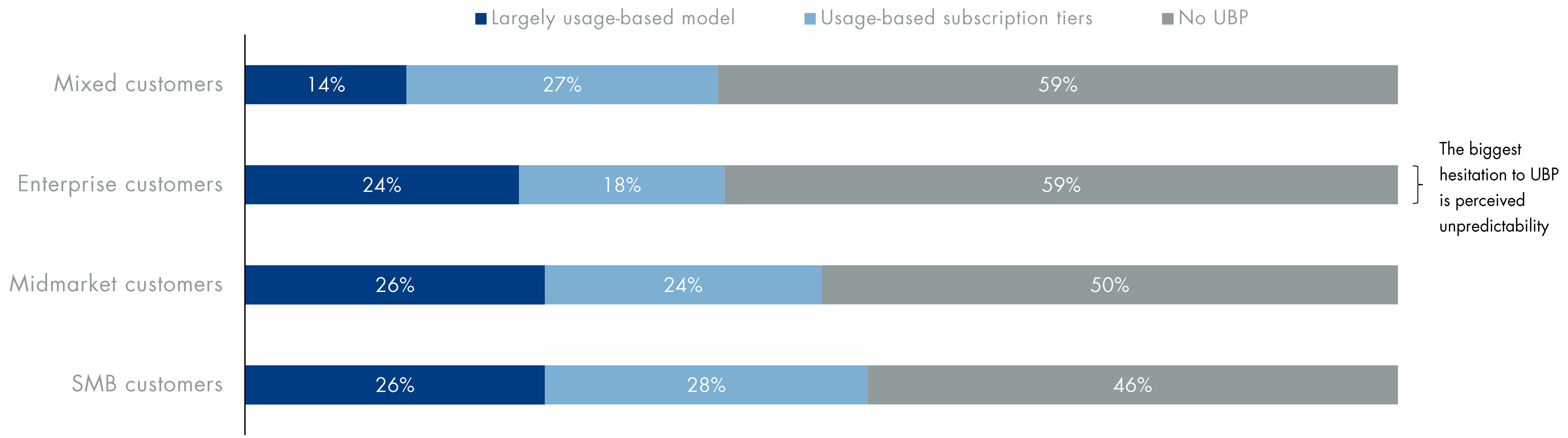
Usage-based pricing adoption by company size (ARR)

Source: OpenView 2021 Financial & Operating Benchmarks Survey

- Adopting usage-based pricing can be especially challenging when companies are first monetizing and don't yet have visibility into customer adoption metrics.
- Those with $1-5M in ARR are most likely to go all-in on a usage-based model. 29% of these companies say they have "largely usage-based pricing" compared to only 20% of those with >$5M in ARR.

USAGE MODELS ARE MORE COMMON AMONG THOSE SELLING TO SMALL TO MIDSIZE CUSTOMERS

Usage-based pricing adoption by target customer



Source: OpenView 2021 Financial & Operating Benchmarks Survey

YOU CAN GET CREATIVE WITH PRICING STRUCTURES TO GIVE CUSTOMERS GREATER PEACE OF MIND

Pricing structure	How it works	Example
Larger discount for a bigger commitment	Customers commit to a spend level for the year and get a better price for a larger commitment.	twilio
Rolling over unused credits	If the customer doesn't use their committed credits, they can roll some over assuming the next year's commitment remains at least as large as the last one.	snowflake
Commit now, pay later	Customers can choose between whether they want to pay for their commitment fully upfront, partially upfront, or monthly in arrears. They can save if they make a bigger commitment or choose to pay upfront.	aws
Flexible usage draw-down	The customer can choose between a monthly usage subscription or an annual allotment that can be consumed flexibly. With the annual option, a customer can grow into their commitment over time and not get penalized for periodic spikes.	DATADOG

BEST PRACTICE FOR ENTERPRISE: GIVE CUSTOMERS HEADROOM AND RE-UP THEIR COMMITMENT

"

We didn't like to use the term 'overage' with customers; we used 'flex' instead. We found that a minimum commitment is necessary for the enterprise motion, but that customers should be able to flex above their minimum. **They would get a grace period of 2–3 months before they would have to decide whether to pay for the one-time flex usage or to re-up their contract at a higher commitment and higher discount. If they re-up, the flex usage is forgiven."**

– Commercial Leader

Benefits to the customer:

- Greater predictability in the buying process
- Fewer surprise fees they didn't budget for
- Don't have to worry about the administrative burden of small overage payments

Benefits to the vendor:

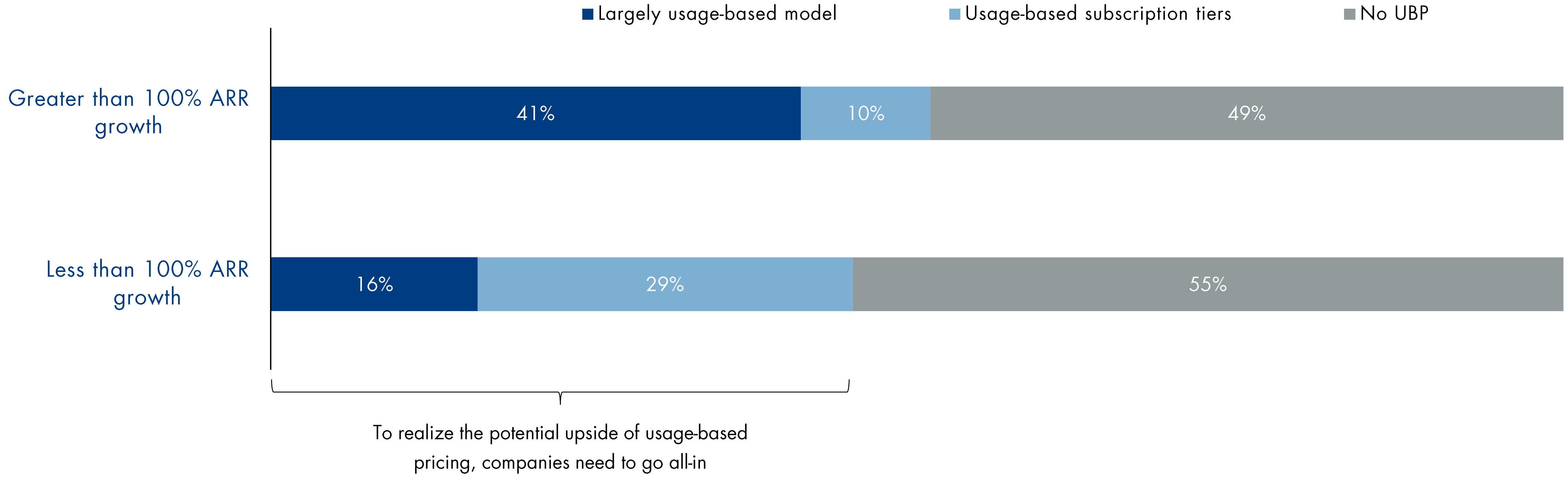
- Lock-in a greater future subscription commitment with better LTV
- Gives the sales or AM team leverage to re-engage the customer in an upsell (feels like they're doing the customer a favor)
- Fewer billing and administrative headaches

PERFORMANCE

USAGE-BASED COMPANIES CONTINUE
TO OUTPERFORM THEIR PEERS

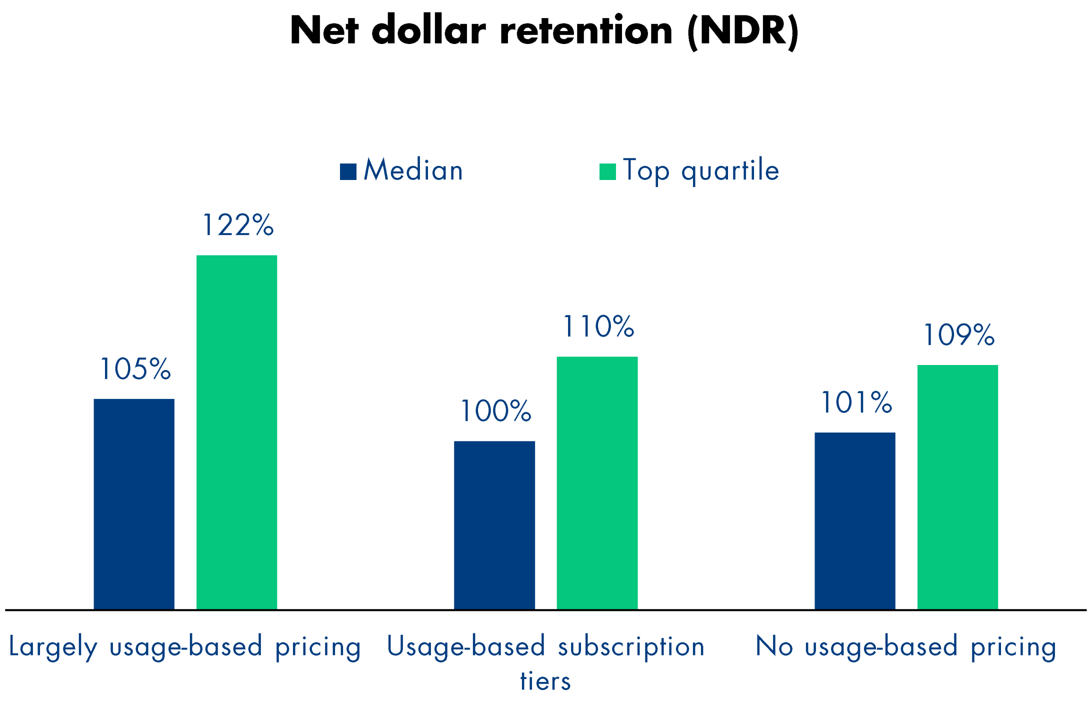
THE FASTEST GROWING COMPANIES ARE ESPECIALLY LIKELY TO LEVERAGE USAGE MODELS

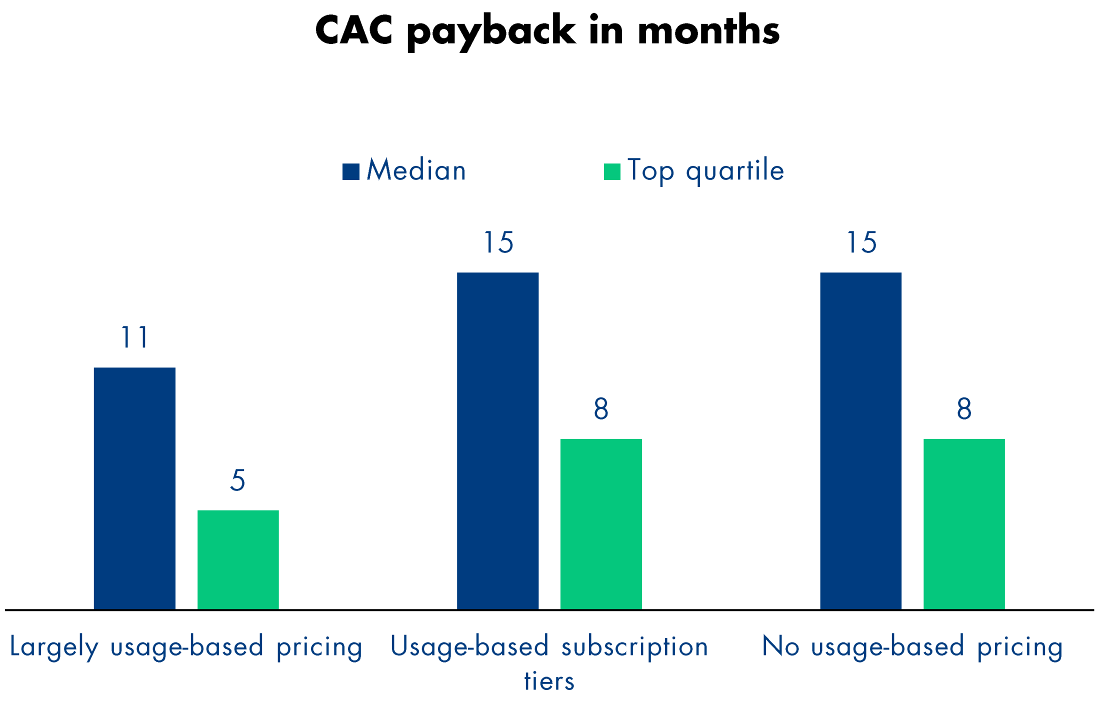
Usage-based pricing adoption by ARR growth rate*



Source: Source: OpenView 2021 Financial & Operating Benchmarks Survey
*These results are consistent across company sizes

FASTER GROWTH IS DRIVEN BY BEST-IN-CLASS NET DOLLAR RETENTION AND CAC PAYBACK

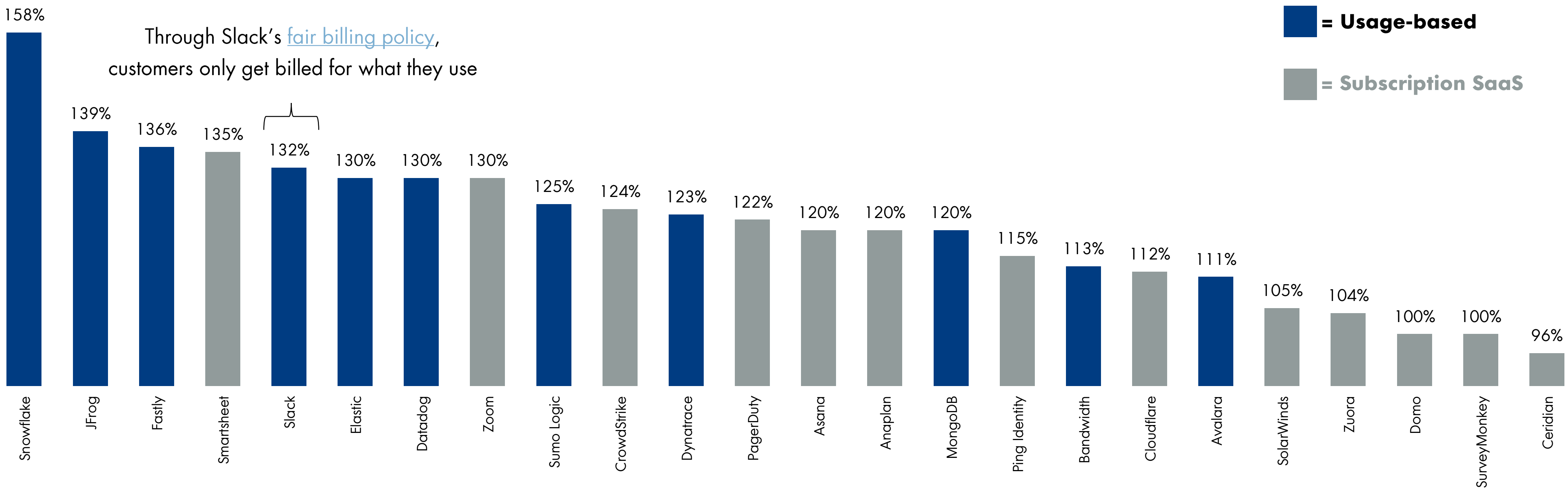




Source: OpenView 2021 Financial & Operating Benchmarks Survey

MEANWHILE, PUBLICLY TRADED SAAS COMPANIES WITH THE BEST NDR ALSO HAVE A USAGE-BASED MODEL

Net dollar retention (NDR) among recent* SaaS IPOs



*Companies must have gone public between 11/1/2017 and 11/1/2020 to be included in this dataset. Net retention reported from a company's 10-K or S-1, whichever is most recent.

FOR PUBLIC COMPANIES, USAGE-BASED PRICING DRIVES ACCELERATED GROWTH AT SCALE

Comparison of usage-based public SaaS companies to the broader SaaS index*

	Usage-based	Broader SaaS index	Difference (%)
YoY revenue growth (Forecast)	29.9%	21.7%	**+38%**
Net dollar retention	120%	110%	**+9%**
EV/revenue multiple	21.6x	14.4x	**+50%**
Revenue scale ($, in millions)	$578	$434	**+33%**
Rule of 40	31.4%	29.1%	**+8%**

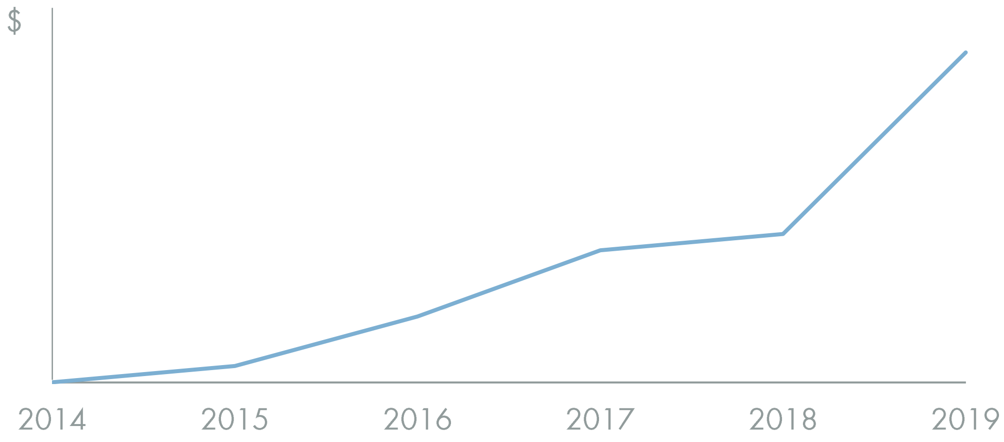
*Summary financials based on public comparables. All values are medians of the comparable sets. Data from Pitchbook pulled on 11/1/2020.

1. Usage-based businesses see continued growth at scale (29.9% vs. 21.7%) driven by best-in-class net retention (120% vs 110%).
2. They do this at even greater revenue scale with similar gross margin and Rule of 40 profiles to their peers.
3. As a result, usage-based businesses are valued at a substantial premium (21.6x vs 14.4x revenue multiple).

EXAMPLE: TWILIO SEES LOW FRICTION TO ADOPT AND MASSIVE EXPANSION POTENTIAL

twilio 2020 investor presentation

Typical Customer Revenue Ramp



Developer-first

Low friction and no upfront costs

Usage-based Model

Share in our customers' success

Land & Expand

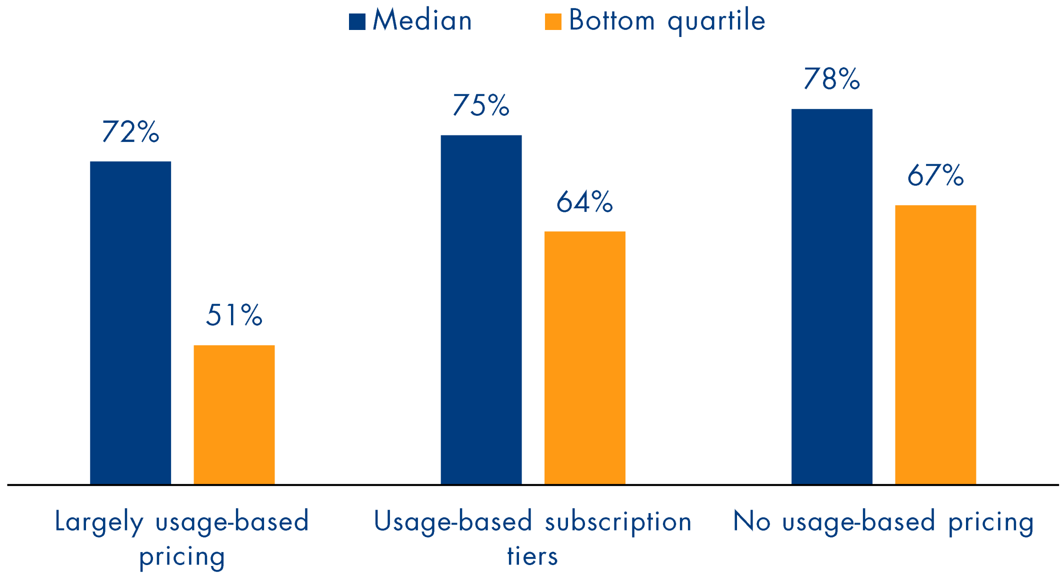
More usage, more products, more applications

- Twilio has 10M+ developer accounts, 200k+ active customers, and a 132% dollar-based net expansion rate.
- Despite the larger user base, revenue is concentrated in top customers. 7 customers spend $10M+ per year and 142 spend $1M+ per year.
- 85% of Twilio's net expansion comes from usage and only 15% comes from new products.
- 76% of Twilio's revenue mix is from usage-based products.

Source: Twilio 2020 Investor Day Presentation

IF YOU HAVE HIGH COGS, USAGE-BASED PRICING MAY BE AN IMPERATIVE

Gross margin %



Source: OpenView 2021 Financial & Operating Benchmarks Survey

- Your cost structure shouldn't drive your pricing – customer value should.
- That said, usage-based pricing can be more easily explainable to customers if you have a cost that goes with it (ex: Twilio, Stripe, AWS). Usage models also minimize the risk of ending up with lots of unprofitable customers.

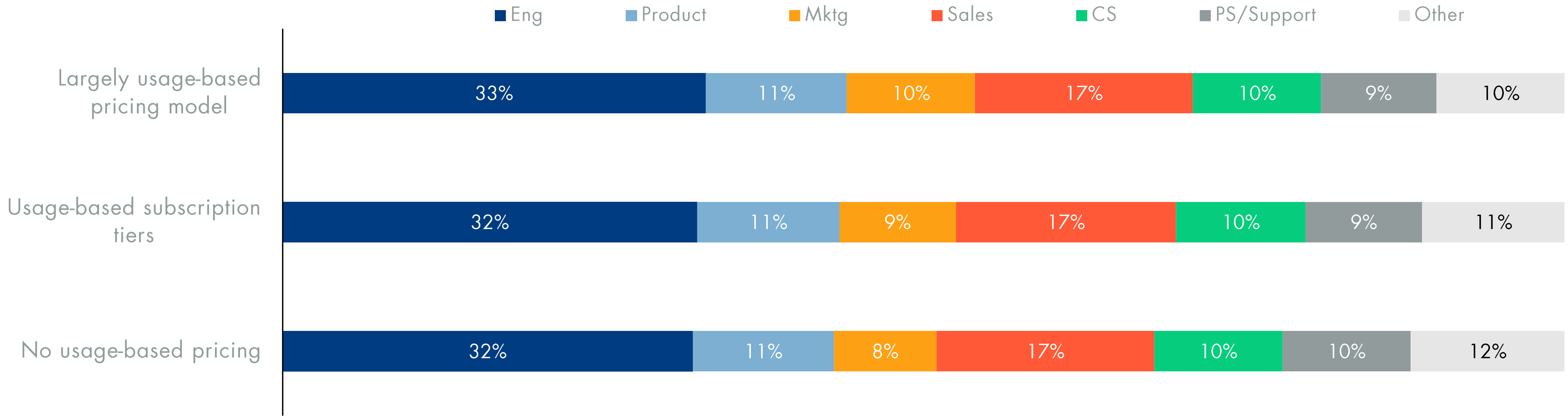
OPERATIONS

USAGE-BASED PRICING IS A COMPANY-WIDE EFFORT, NOT A PRICING STRATEGY

OV

THE USAGE-BASED ORG STRUCTURE LOOKS SIMILAR TO PEER COMPANIES – AT LEAST ON THE SURFACE

Distribution of FTEs by function



Source: OpenView 2021 Financial & Operating Benchmarks Survey

THE BEST USAGE-BASED COMPANIES REORIENT EVERY TEAM TOWARDS CUSTOMER SUCCESS

Product

Treat product investments as a revenue-generating expense.

Marketing

Connect marketing efforts with the product and user community.

Sales

Stop treating "committed bookings" as the holy grail; compensate accordingly.

In a usage-based pricing model, you share in your customer's success. Your revenue grows – but only when they grow. Every team should play a role in driving customer adoption.

Customer Success

Be proactive, looking for leading indicators of future success.

Finance

Reinvent the traditional SaaS metrics playbook.

Pricing

Keep pricing simple even if that means leaving some money on the table.

EXAMPLE: SNOWFLAKE CHANGED SALES COMP BEFORE THE IPO TO INCENTIVIZE BETTER BEHAVIORS

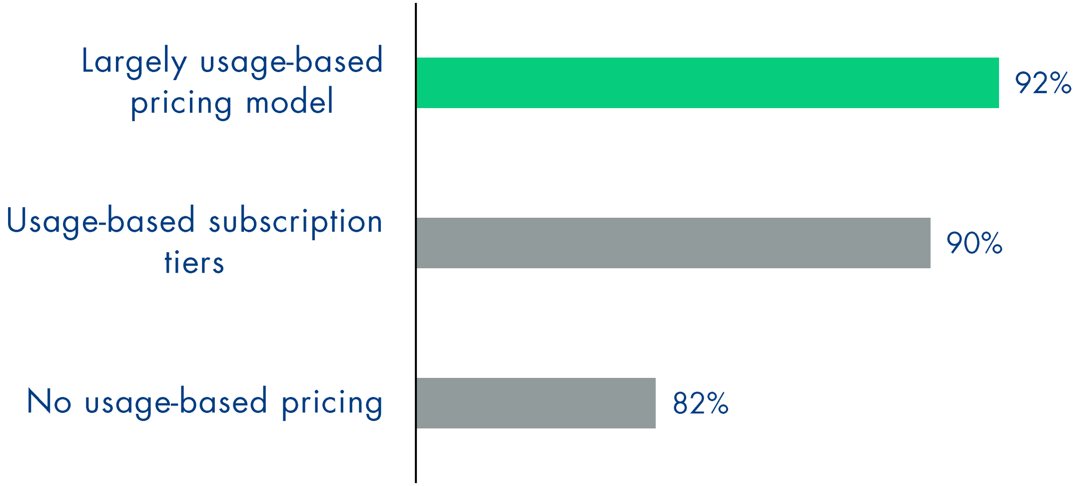
snowflake

Added a consumption revenue component to sales compensation

- Initially Snowflake compensated the field sales team based on bookings, which is when they collected cash; however, Snowflake only recognized revenue on consumption and customers could roll-over their credits.
- The financial success of a company with usage-based pricing is ultimately tied to consumption, so it made more sense to align sales incentives to the same goal.
- Snowflake changed compensation to be split between committed bookings and recognized consumption, which gets paid out as it's earned based on a customer's consumption.
- Most of the first contracts are a proof of concept and at some point the customer will spike consumption or bring on more workloads. As such, the sales reps stay with accounts rather than handing them off.

USAGE-BASED COMPANIES WILL INCREASE PLG INVESTMENTS IN 2022

Share of companies who expect to increase PLG investments in 2022

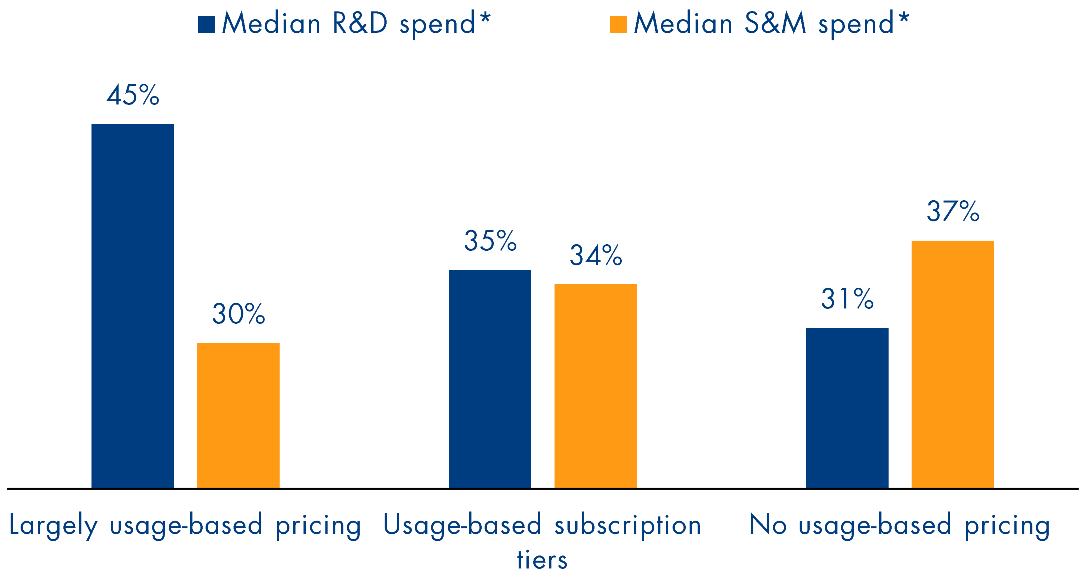


Source: OpenView 2021 Financial & Operating Benchmarks Survey

- Usage-based revenue growth depends on customers using and seeing value from the product. This is product-led growth (PLG) in its purest form.
- While most companies expect to increase their PLG investments, these investments are imperative to usage-based companies.
- Key PLG investment areas include 'try before you buy' offerings, product analytics tooling, and dedicated product & design resources focusing on usability.

PRO TIP: TREAT R&D AS A REVENUE-GENERATING EXPENSE

Spend on R&D and Sales & Marketing



Source: OpenView 2021 Financial & Operating Benchmarks Survey
*Spend as a percentage of current ARR

- In a usage-based model, product investments that increase adoption can be directly connected to revenue growth.
- Usage-based companies have a far higher ratio of R&D spend relative to Sales & Marketing spend than their traditional subscription peers.
- Notable public company examples include Unity (2.0 ratio of R&D to S&M), Bill.com (1.4 ratio), Shopify (1.0 ratio), and Twilio (0.9 ratio).

WRAP UP

TAKEAWAYS ON THE STATE OF USAGE-BASED PRICING

THE TL;DR: USAGE-BASED PRICING IN 2021

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MORE USAGE-BASED PRICING RESOURCES

- Playbook: Scale to $100M+ ARR with a Usage-Based Pricing Model. (LINK)
- The Ultimate List of Usage-Based Pricing Resources. (LINK)
- Usage-Based Pricing 2.0. (LINK)
- Usage-Based Pricing Playbook: Customer Success Is A Mindset, Not Just a Job. (LINK)
- Inside Cypress's Playbook for Launching Usage-Based Pricing. (LINK)
- Usage-Based Pricing: Behind the Scenes of New Relic's Transformation. (LINK)

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Sanjiv focuses on venture and growth investments in B2B software and is particularly interested in large legacy industries that have not or are undergoing digital transformation. Sanjiv joined OpenView as a Partner in November 2020. Prior to OpenView, Sanjiv was a Principal at Battery Ventures where he led investments in ServiceTitan, AuditBoard, MX, VNDLY, Vidyard, InVision, RiskIQ, and more.

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Kyle helps OpenView's portfolio companies accelerate revenue growth and become market leaders. He works closely with executive and founding teams on a broad range of topics including pricing & packaging, product led growth, GTM strategy, and customer expansion. He joined OpenView in 2016 from Simon-Kucher.

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