

OPENVIEW

# THE STATE OF USAGE-BASED PRICING

Second Edition



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# WE INVESTIGATED HOW LEADING SAAS COMPANIES PRICE THEIR PRODUCTS

Last year we wrote that software buying had evolved—and that SaaS companies were increasingly moving to a [usage-based pricing](#) (UBP) model to stay ahead of the curve.

Much has changed in the last year across the macroeconomic environment and capital markets. Companies are balancing growth with profitability, extending their runway, and prioritizing predictable cash generation.

**All that left of us wondering:** is usage-based pricing still the [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.

## About the survey

- Data comes from OpenView's 2022 Financial & Operating Benchmarks survey, conducted in July–August 2022.
- Nearly 3,000 private SaaS companies have participated in the survey across the last six years.
- Respondents were primarily the CEO/Founder (43%) or CFO/VP Finance (21%).

# 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 subscriptions

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.

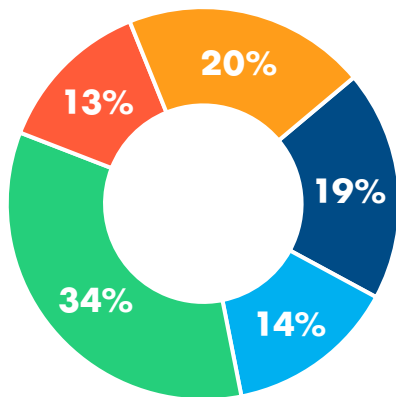


### No usage-based pricing

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.

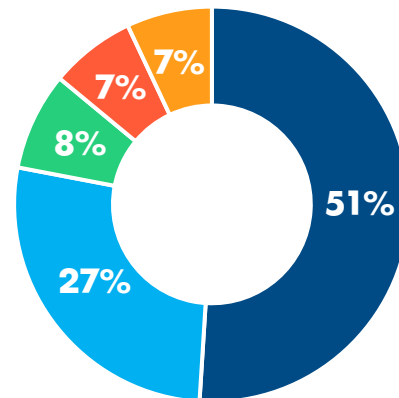
# THIS YEAR'S SURVEY INCLUDED A DIVERSE CROSS-SECTION OF PRIVATE SAAS COMPANIES

## DISTRIBUTION OF RESPONDENTS BY ARR



- <\$1M ARR
- \$1-2.5M ARR
- \$2.5-10M ARR
- \$10-20M ARR
- >\$20M ARR

## DISTRIBUTION OF RESPONDENTS BY REGION



- US
- Europe
- APAC
- Canada
- Other

# TAKEAWAYS: USAGE-BASED PRICING IN 2022

## ADOPTION

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### Hybrid models are the future of SaaS pricing.

- 61% of SaaS companies say they either have usage-based pricing or are actively testing it.
- It's not usage-based *or* subscription pricing. Today SaaS companies are turning to more complex, hybrid models.
- As pricing gets more complex, we're seeing the rise of the modern pricing tech stack.

## PROFILE

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### Usage-based and hybrid models are springing up in different software industries.

- While usage-based models have become the norm in infrastructure (ex: AWS, Azure, GCP), they're now found in horizontal and vertical application software as well.
- 49% of vertical apps have no usage-based pricing while only 10% have a largely usage-based pricing model.

## GROWTH

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### Monetizing based on usage is part of a broader shift towards PLG.

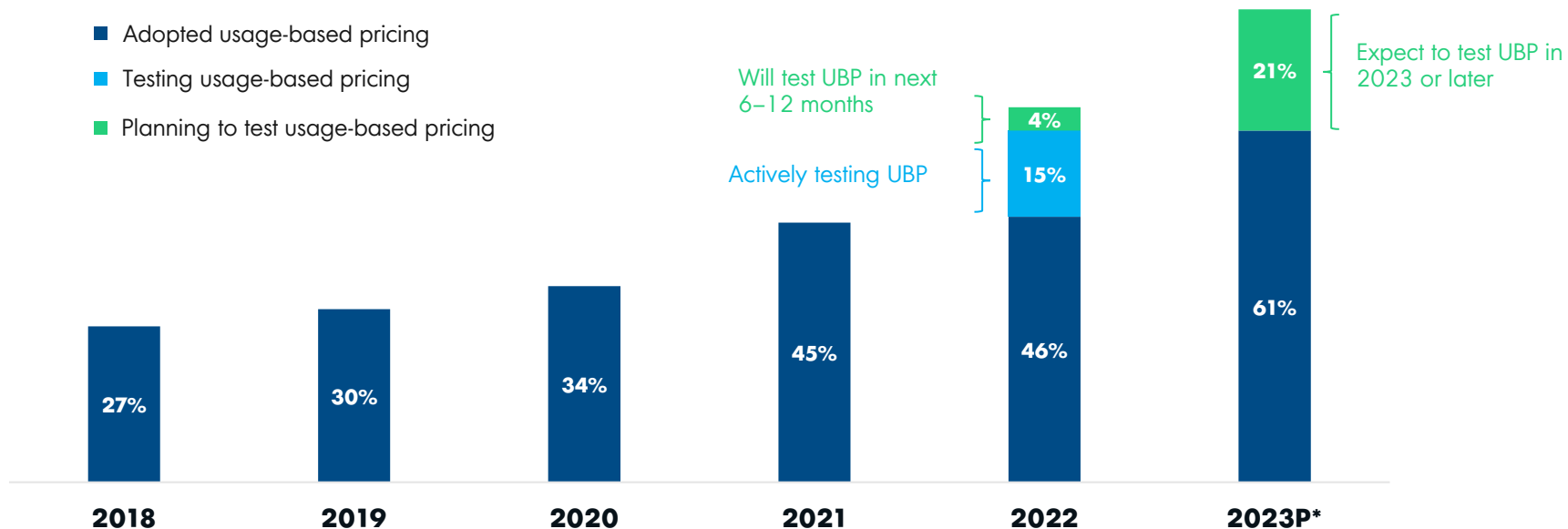
- Usage-based pricing is inherently PLG; you get paid as customers use your product.
- Despite market uncertainty, usage-based companies are heavily investing in PLG. 87% of those with a largely usage-based pricing model expect to increase their PLG investments next year compared to 69% of more traditional software companies.
- Usage-based companies are focusing their PLG investments in two big areas: (1) building for openness, allowing users to easily connect their products; (2) providing value to end users, not only executive buyers.

# ADOPTION

HYBRID MODELS ARE THE FUTURE OF SAAS PRICING

# THREE OUT OF FIVE SAAS COMPANIES NOW HAVE SOME FORM OF USAGE-BASED PRICING

## USAGE-BASED PRICING ADOPTION OVER TIME



# WHY: 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 reports 61% of all knowledge workers already rely on automation.<sup>1</sup>

## 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 to human users of a product.**



There was \$96.5 billion in private investment in AI-related tech in 2021, up 103% year-on-year.<sup>2</sup>

## Developer Applications

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.**



API-first company Stripe was valued at \$74 billion as of July 2022.<sup>3</sup>

1. <https://zapier.com/blog/automation-index-q4-2020/>

2. <https://techcrunch.com/2022/07/20/stripes-new-and-lower-internal-valuation-explained>

3. [https://aiindex.stanford.edu/wp-content/uploads/2022/03/2022-AI-Index-Report\\_Master.pdf](https://aiindex.stanford.edu/wp-content/uploads/2022/03/2022-AI-Index-Report_Master.pdf)



# USAGE-BASED MODELS EXIST ON A SPECTRUM— MOST NOW FALL SOMEWHERE IN THE MIDDLE

No usage-based pricing

Hybrid usage-based subscriptions

Largely usage-based or pay-as-you-go



	 	
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On seat-based pricing, Atlassian Co-CEO Mike Cannon-Brookes told Bloomberg News, "I don't feel demand to move away from it."

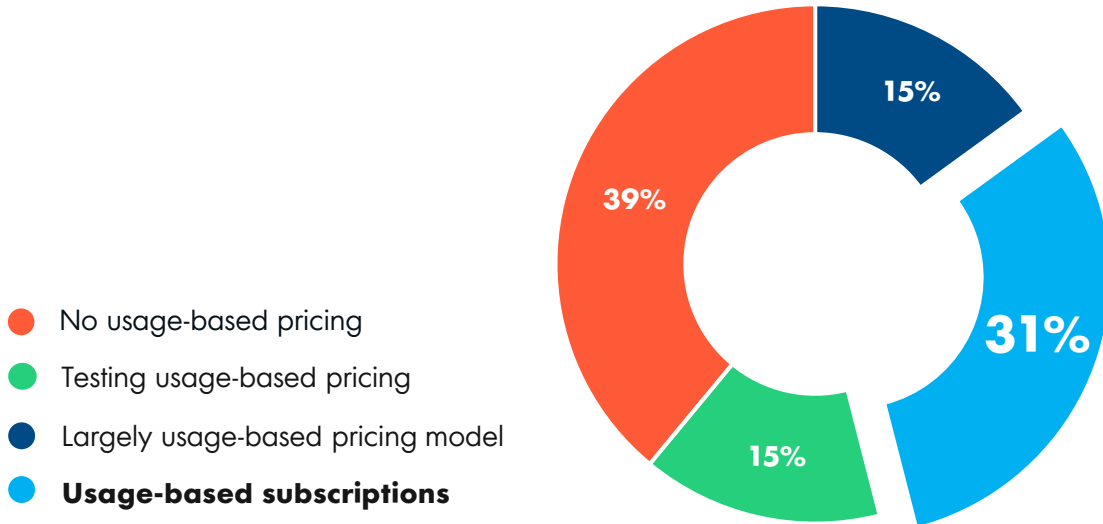
Autodesk introduced one-day "Flex" licenses in 2021 to attract new users to products like AutoCAD.

HubSpot includes a volume of usage in its subscription packages. Customers buy more usage as they grow.

Google Cloud introduced pay-as-you-go pricing for Apigee API management in August 2022.

# IN AN UNCERTAIN ENVIRONMENT, HYBRID MODELS ARE WINNING 🏆

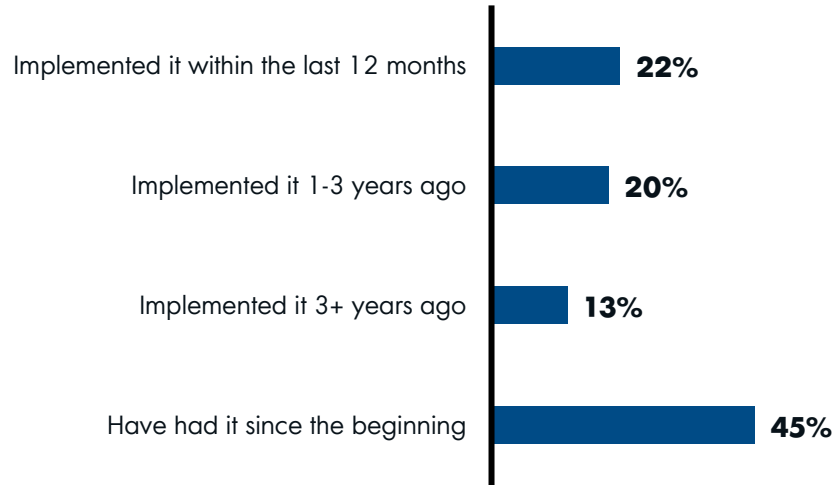
## ADOPTION OF USAGE-BASED PRICING



- 1 It's not usage-based pricing *or* subscriptions. In fact, the share of companies with a largely usage-based or pay-as-you-go model has declined year-over-year (**22% to 15%**).
- 2 The future of SaaS pricing is more complex. Hybrid pricing models help companies win deals and meet customers where they are.
- 3 **46%** of companies either offer usage-based subscription plans or are testing usage-based pricing alongside traditional subscriptions.

# MANY COMPANIES TESTED OR ADDED USAGE MODELS IN 2022

## WHEN COMPANIES ADOPTED A USAGE-BASED PRICING MODEL



- 1 It's not just your imagination—usage-based pricing continues to be on the rise, despite the SaaS crash.
- 2 22% of companies with usage-based pricing have implemented it in just the last 12 months.
- 3 We're seeing that it takes a long time to fully embrace a usage-based pricing model (normally 12+ months).

# AS PRICING GETS MORE COMPLEX, WE'RE SEEING THE RISE OF THE MODERN PRICING TECH STACK

## The modern pricing technology stack

### Metering and billing



### Quote to cash



### Finance and planning



### Pricing optimization



### Automation



### Churn and payments

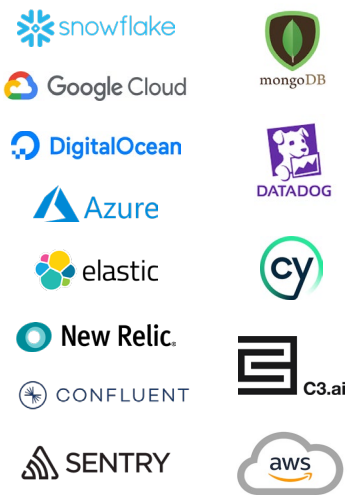


# PROFILE

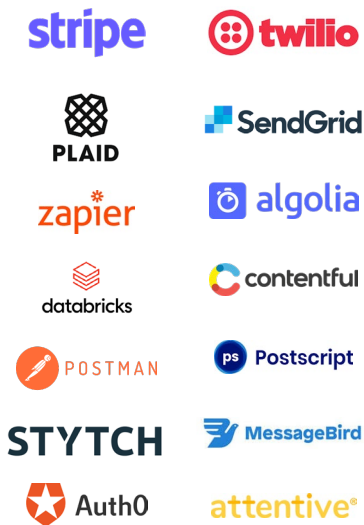
USAGE-BASED AND HYBRID MODELS HAVE  
SPREAD ACROSS SOFTWARE CATEGORIES

# USAGE-BASED COMPANIES ARE EVERYWHERE

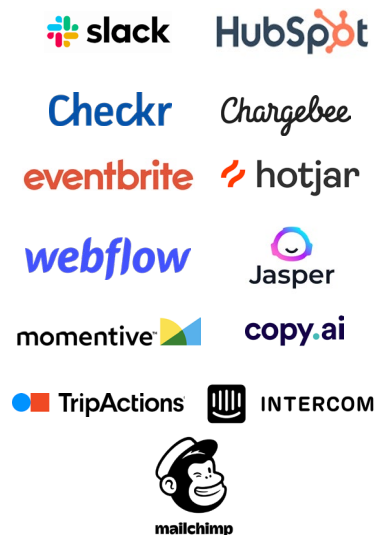
## Infrastructure



## Middleware



## Application



## Vertical App



# USAGE-BASED PUBLIC SAAS COMPANIES SEE SIMILAR GROWTH DYNAMICS

## COMPARISON OF USAGE-BASED PUBLIC SAAS COMPANIES TO THE BROADER SAAS INDEX\*

	Usage-based	Broader SaaS index	Difference (%)
<b>YoY revenue growth (TTM)</b>	17%	13%	<b>+31%</b>
<b>Net dollar retention</b>	125%	114%	<b>+9%</b>
<b>Revenue scale (\$, in millions)</b>	\$917	\$597	<b>+54%</b>
<b>Rule of 40</b>	36.5%	36.2%	<b>+1%</b>

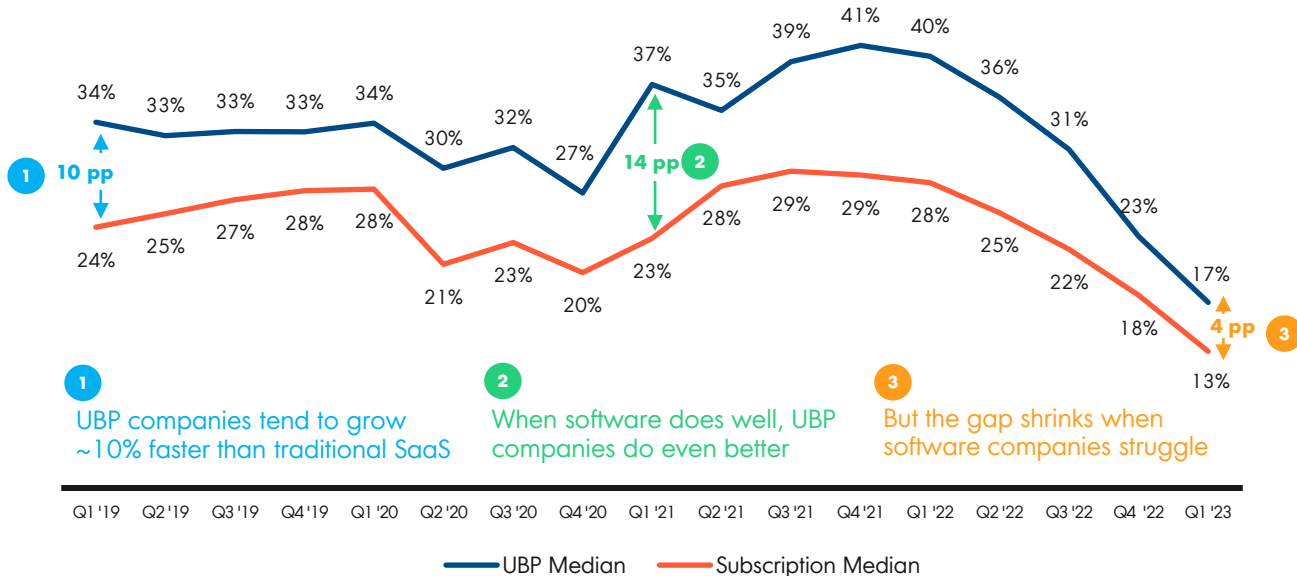
### USAGE-BASED PRICING OUTPERFORMS

Usage-based businesses see continued growth at scale, driven by best-in-class net retention.

\*Summary financials based on public comparables. All values are medians of the comparable sets. Data from Pitchbook pulled on 1/19/2023.

# USAGE-BASED PUBLIC SAAS COMPANIES SEE MORE VOLATILE GROWTH RATES

**MEDIAN REVENUE GROWTH RATE**  
By Pricing Model; Public SaaS Companies



**1** UBP companies tend to grow ~10% faster than traditional SaaS

**2** When software does well, UBP companies do even better

**3** But the gap shrinks when software companies struggle

## TAKEAWAYS

**Know it's coming:** Usage-based pricing growth rates will overreact when businesses are spending—and when businesses cut.

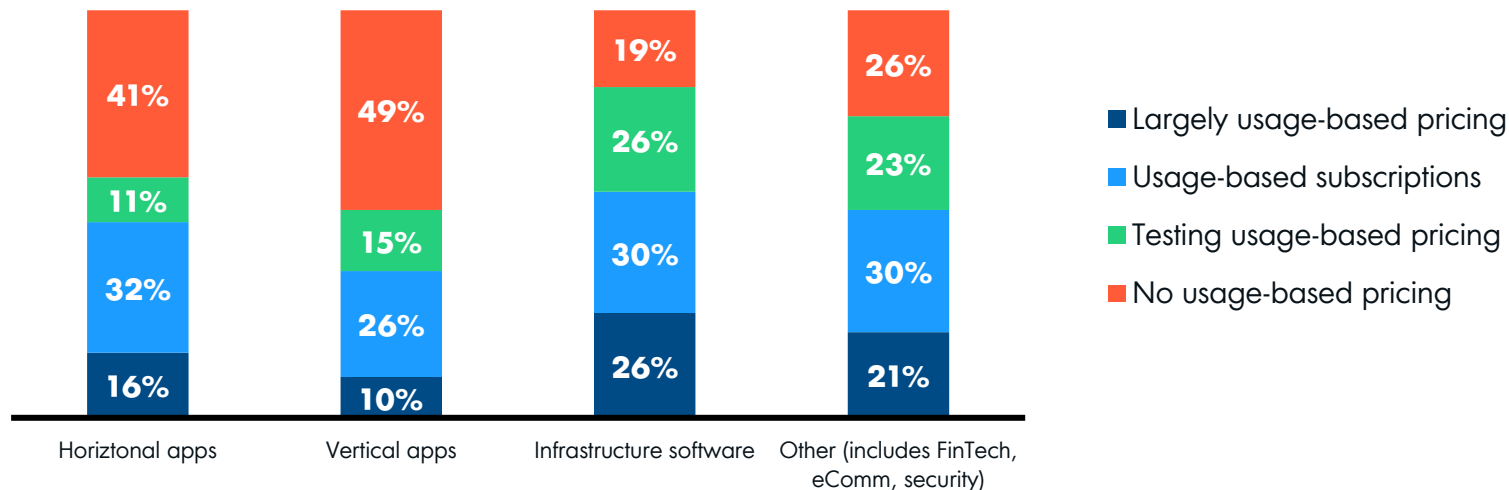
**Invest in predictability:** Develop the right in-house financial and analytic group to identify early signs of contraction/expansion.

**Keep CAC flexible:** Keep an eye on how much of your CAC can be flexed up (in good times) and down (in bad times).



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

## ADOPTION OF USAGE-BASED PRICING BY PRODUCT CATEGORY



# GROWTH

MONETIZING BASED ON USAGE IS PART OF A BROADER  
SHIFT TOWARDS PRODUCT-LED GROWTH

# USAGE-BASED PRICING IS INHERENTLY PLG; YOU GET PAID AS CUSTOMERS USE YOUR PRODUCT

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.



## 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.



## Customer Success

Be proactive, looking for leading indicators of future success.



## Finance

Reinvent the traditional SaaS metrics playbook.

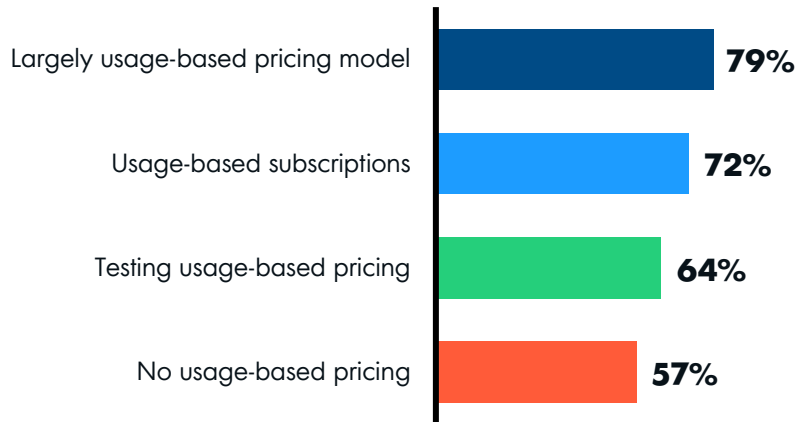


## Pricing

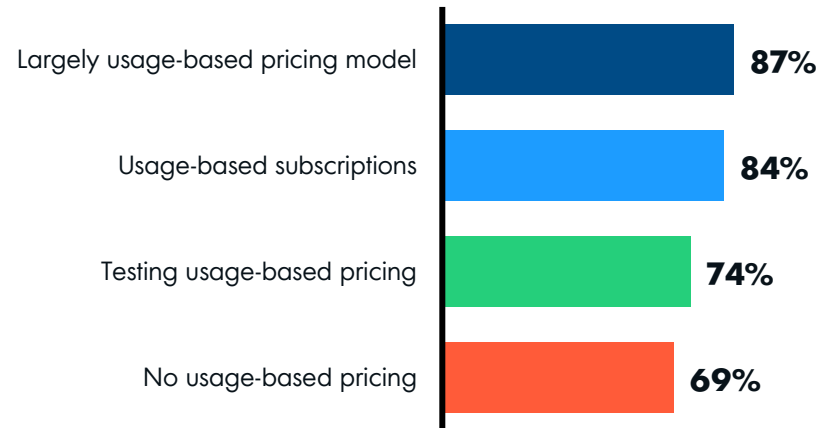
Keep pricing simple even if that means leaving some money on the table.

# USAGE-BASED COMPANIES ARE HEAVILY INVESTING IN PLG

## SHARE OF COMPANIES WHO INCREASED THEIR PLG INVESTMENTS IN 2022

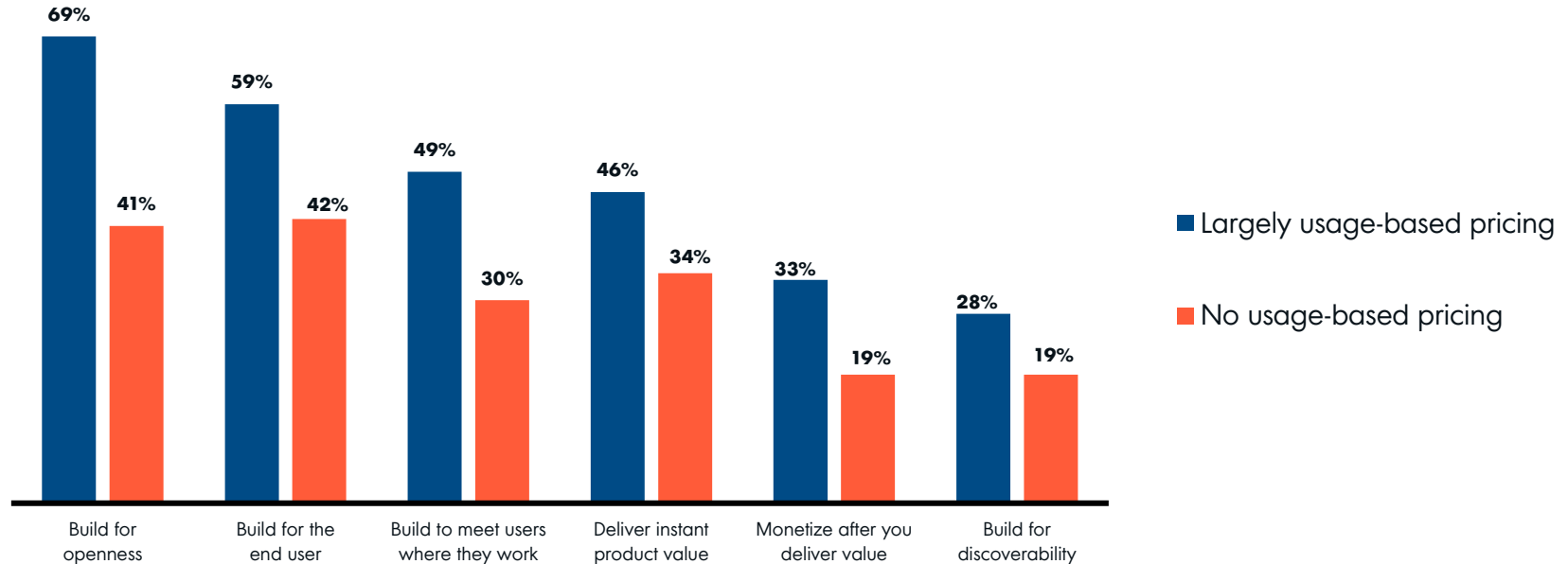


## SHARE OF COMPANIES WHO EXPECT TO INCREASE PLG INVESTMENTS IN 2023



# PLG ROADMAP: WHERE USAGE-BASED COMPANIES ARE FOCUSING THEIR INVESTMENTS

## ADOPTION OF PRODUCT-LED GROWTH CHARACTERISTICS BY PRICING MODEL



The background is a solid pink color with large, semi-transparent geometric shapes. On the left, there are two concentric circular arcs. On the right, there are several diagonal lines and a large, stylized 'V' shape, all in a lighter shade of pink.

# WRAP UP

TAKEAWAYS ON THE STATE OF USAGE-BASED PRICING—  
AND WHAT COMES NEXT

# TAKEAWAYS: USAGE-BASED PRICING IN 2022

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# **ABOUT THE AUTHORS**





## SANJIV KALEVAR 🙌

### **PARTNER**

Sanjiv focuses on venture and growth investments in B2B software and is particularly interested in large legacy industries that have not undergone 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.



## CURT TOWNSHEND 🙌

### **VP, GROWTH**

Curt supports OpenView's Growth Team, helping portfolio companies accelerate top-line growth and dominate their markets. He works closely with portfolio leadership teams to discover, test, and implement the most impactful strategies for growth.



## KYLE POYAR 🙌

### **OPERATING PARTNER**

Kyle is an Operating Partner, helping OpenView's portfolio companies fuel growth and become market leaders. He specializes in pricing & packaging strategy, which is the most effective yet overlooked growth lever at a SaaS company's disposal. He's an expert in product-led growth (PLG), GTM strategy, and SaaS benchmarks.

Follow Kyle's growth advice by subscribing to [Growth Unhinged](#), his weekly newsletter that reaches nearly 20,000 founders, investors, and growth enthusiasts.

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THE EXPANSION STAGE SOFTWARE VC

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people's working lives.**

#### **WE DO THIS BY**

- Investing in the best software companies
- Helping our portfolio companies accelerate growth and become market leaders

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