How to tackle software pricing in 2024

2023 was another unpredictable year for the software landscape, forcing business leaders to focus not only on revenue growth, but also profitability. One of the key levers for achieving both is getting pricing right, which will not only deliver a good value proposition to customers, but also ensure good margin performance.

At m3ter, we conducted extensive research on the top trends for this year, summarised in our annual *Pricing Predictions Report 2024.* Tapping into industry experts and VCs to forecast the pivotal role and shifts of pricing has given us some unique insights into what is to come this year and how to tackle these evolving trends. Here are three tips on how to deal with shifting investor expectations, the rise of AI, and the uncertain market conditions in your approach to pricing in 2024.

Meet investor expectations with thoughtful pricing

Historically, pricing and billing infrastructure topics were deemed more relevant to growth stage companies and beyond, but our research shows that investors are increasingly focused on pricing strategies from as early as a company's inception, recognizing their impact on long-term business sustainability. Alongside hiring and Go To Market, investors will expect you to demonstrate greater efficiency and improvement in your burn multiple in order to secure fundraising.

Innovation in your pricing and packaging will demand a thoughtful, creative approach. Our research shows that hybrid pricing models – a strategic blend of subscription and consumption-based pricing – are likely to see widespread adoption this year. Although hybrid models have been a topic of discussion for some time, experts have pointed out there was more interest in hybrid pricing over the last couple of years, as businesses realised there are better ways to roll out and monetise new products, while limiting disruption to their existing pricing model. Already in 2024, for example, cloud integration software firm Zapier announced that *due to customer demands*, it would be innovating towards having usage-based elements in its pricing model.

Our research also showed that companies strategically integrating usage-based elements with traditional models see more success than those hastily adopting usage-based pricing. Whatever changes you introduce to your pricing, you have to ensure your approach is intentional and meets the needs of your customers and business. Knowing where to start can be hard. Start by talking to your customers to understand where they're getting most value from your product and compare it to actual product usage data, so you can begin to learn how to better align pricing to customer success.

Prepare for AI's impact on the status quo

According to OpenView's 2023 *SaaS benchmarks report*, 46% of SaaS companies launched AI features in the last year, and another 31% are actively building or testing AI features.The experts we talked to anticipate that this will be a catalyst for companies that have yet to adopt usage-based pricing.

Over the past year, software companies have already started to factor into their pricing models the variable costs associated with AI technologies – such as computational resources or data processing needs. Usage-based or subscription elements are therefore an attractive choice to address these developments.

If AI is a part of your company's product strategy, margin controls should be considered when aligning pricing with the added value AI value brings, so that new products or features are profitable as well as sticky.

Overall, if you are introducing AI components to your product, view this as an opportunity to revisit your pricing strategy holistically, rather than just piecemeal for the addition of a new AI feature or product so you can see the most success.

Understand your pricing power

According to the experts we spoke to, there will be even greater attention on profitability in 2024. This means a sharper focus on your company's ability not only to grow, but to ensure any spending also creates a strategic competitive advantage.

With inflation rates still high, many business leaders have naturally contemplated hiking prices. According to *Vertice*, 73% of software vendors increased their prices in 2023 and this trend is predicted to continue, particularly as companies realise it's not too scary a task if executed carefully. Our research found that companies with pricing power – inelastic demand and a lot of entrenchment – are in an especially strong position to comfortably raise prices to match or even beat the rate of inflation.

However, the limit for the majority of companies – especially those who don't provide mission-critical services – will be the rate of inflation. In these cases, your north star for charting a path to profit should focus on driving internal cost efficiencies.

Pricing for an unpredictable future

There is no one-size-fits all strategy to pricing, so it's vital to look back and decipher what worked over previous years, particularly during economic turbulence. Ariela Bitran, Director of Pricing Strategy at Chargebee and one of the experts we interviewed, believes that reflection is the key to innovation in 2024. She recommends that software businesses "find the segments where your pricing strategy has been successful and use that to create repeatability – a more targeted strategy for your top segments over the next five years".

Pricing is a crucial growth lever. Without the right approach, you risk leaving money on the table or creating a negative customer experience. The coming years will see exciting innovations, evolving regulations, and dynamic market valuations, which all present unique opportunities for the tech industry.

Software companies must embrace an intentional, thoughtful and creative approach to pricing in order to adapt and thrive.

Griffin Parry is the CEO and cofounder of *m3ter*.

Article by GRIFFIN PARRY