



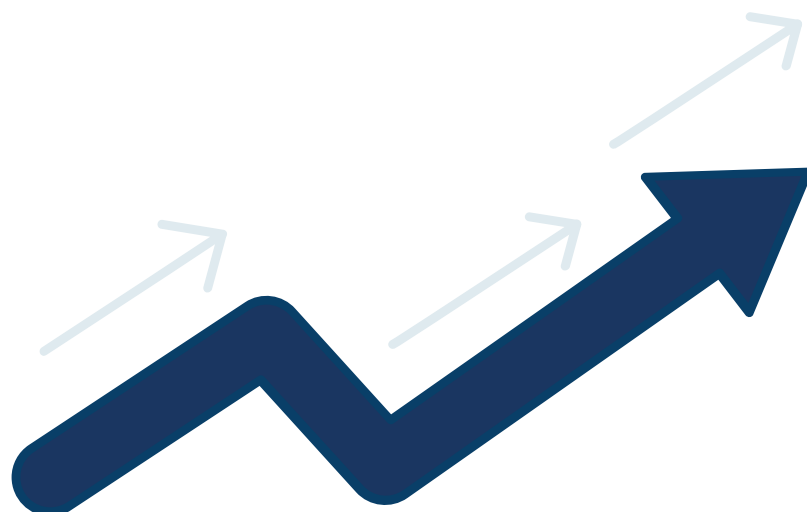
The definitive guide to tiered pricing

Booklet



Table of contents

| | |
|--------------------------------------------------|----|
| Introduction to tiered pricing | 03 |
| A quick glance at the pros and cons | 04 |
| Understanding the pros | 05 |
| Understanding the cons | 07 |
| Overview of 5 tiered pricing strategies | 09 |
| Basic or three-tier pricing (with example) | 10 |
| Feature-based tier pricing (with example) | 11 |
| Usage-based tier pricing (with example) | 12 |
| Preferred option pricing (with example) | 13 |
| Penetration pricing (with example) | 14 |
| Revenue recognition for tiered billing | 15 |
| Managing the complexity of tiered billing | 16 |
| Introducing Subscription Billing Suite | 17 |





Introduction to tiered pricing

Tiered pricing is one of the most familiar billing strategies used by companies today. It's a method where companies limit or expand their offering based on pre-defined tiers. The model has a wide range of applications and is best suited to selling services, features, licences, etc. Not only do tiers attract different target audiences, but they uniquely position you to upsell to customers as their loyalty grows.

This pricing model also allows for flexible pricing and a customer-centric approach. Your team will need to segment desired customers into personas and build tiers to attract each one. The key to succeeding is accurately matching your price points to the value offered by each tier.

Tiered pricing is commonly confused with volume pricing. Companies may refer to the two interchangeably; however, volume or usage-based billing works slightly differently, and they're not the same thing. The confusion comes from the fact that usage metrics are sometimes one of the differentiators between tiers. Similarly, companies using volume metrics often organize their offerings into tiers.

It's best practice to simplify your offering so that each tier is easily understandable.

Careful consideration is critical when deciding on the price of each tier. You may use usage-based sets, feature sets, or even mix the two. Whatever you decide on, it's best to simplify your offering so that each tier is easily understandable. It's common to have three, five or seven tiers, but each tier will require a significant difference in value and cost to make it clear to customers which one will work for them.

A quick glance at the pros and cons of tiered billing



Broader potential audience



Boosts overall conversions



Increases upselling opportunities



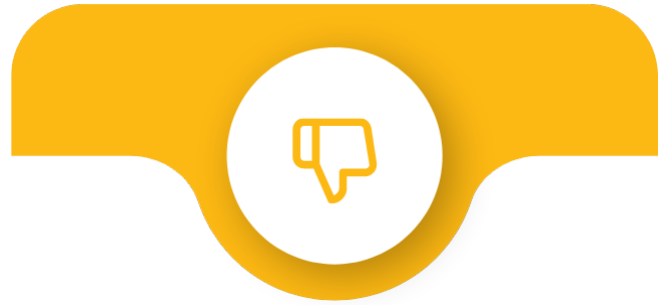
More targeted audiences



Flexibility and choice



Better customer experience



Confusing or overwhelming



Top tier users take advantage



Attract the wrong customers



Users pick the wrong tier



Loss of revenue if priced poorly



Requires deep understanding of leads

Understanding the **pros** of tiered billing



Allows for a broader potential audience

Gives you room to tailor your offering to meet the demands of customers of different sizes, budgets, and priorities. Well designed tiers usually accommodate a range of needs, allowing you to appeal to a much wider audience than if you had only one product/service and price.



Boosts overall conversion rates

Conversions may increase if your tiers align with the right target audiences. If you differentiate appropriately, it will be easier for customers to identify an offering that suits their needs, increasing the likelihood of purchasing.



Increases your upselling opportunities

Allows customers to upgrade or move to higher tiers over time. It's much easier to upgrade loyal customers to a higher tier than to acquire a brand-new customer, allowing you to build your recurring revenue over time. As companies grow or their circumstances change, they may require higher usage or more complex features and upgrade to higher tiers without any additional nudge from your team.



Easier to focus marketing efforts on target audiences

The best practice is to design each tier to meet the needs of a specific persona or customer, giving your team defined audiences to focus on when promoting your products and services. The more tiers align with target audiences, the more effective campaigns will be.



Choice and flexibility

By giving customers the ability to choose their tier, you remove the pressure buyers sometimes feel of being locked into a plan where they only want some features, but there aren't lower tiers available. By keeping things flexible and allowing customers to upgrade, you give them the freedom to expand their usage over time.



Better customer experience

You tailor your offering (and price) to meet the needs of specific audiences, and will tend to have happier customers by catering to different personas. They will be more likely to feel they've "chosen" the plan, and not focus on whether they're paying for features they don't use.

Understanding the **cons** of tiered billing



Many tiers or confusing copy and product pages

Customers may be left feeling overwhelmed and unable to determine which product or service is right for them. Understanding how to sell the benefits of each unique tier will take time and patience. It's wise to invest in the design, UX, and copy elements of your customer journey and simplify how you present your pricing before going live.



Top tier users can take advantage of the system

Top tiers without limits can cause issues if users are highly demanding and expect a lot of support or training. It's best to set limits, even at the highest tier, with overage charges. Although, you will need to think carefully about how to make these charges clear to your highest paying customers without becoming a deterrent.



Can attract the wrong customers

If you do not take the time to identify the target audience for each tier, you may end up attracting the wrong customers. Poorly executed tiers can look like a disorganized pick'n'mix in an attempt to appeal to everyone. Maintaining broad appeal can be an advantage, but it is generally better to cater to specific audiences where possible.



Users may pick the wrong tier

One of the main reasons for this is a poorly executed pricing page or unclear copy. Your tiers may make sense to you, but that won't mean they make sense to the average customer. It's good practice to apply pricing psychology tricks when designing your tiers and landing page, and it's also critical that you invest in ways to present each tier that will increase conversions by helping customers choose the correct option.



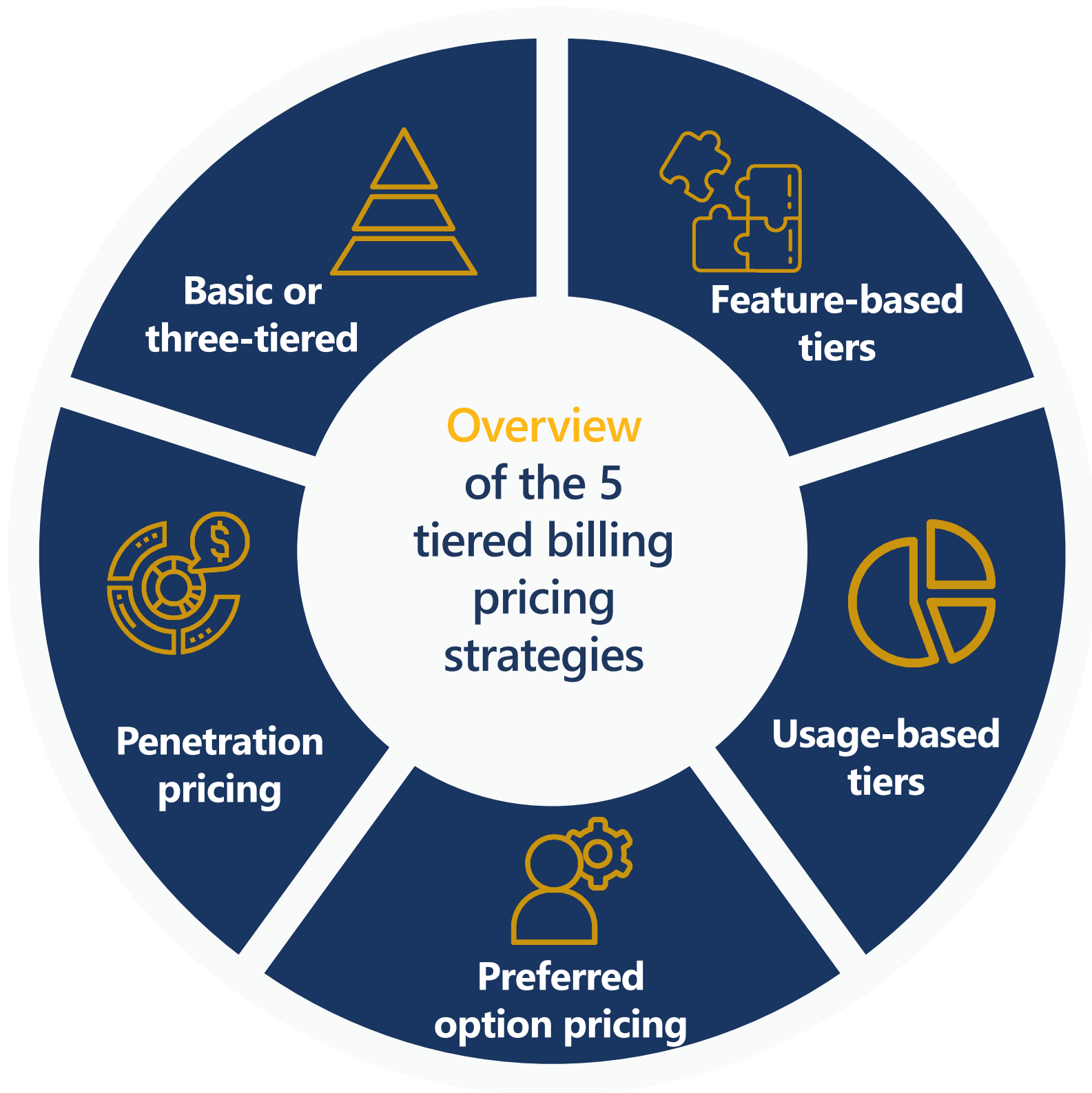
Poorly priced plans cost you

You need to develop your tiers strategically, considering the cost of running each of the services or products per tier. Another way poor pricing costs you is when there's no clear differentiation in perceived value at higher tiers. Customers may choose a cheaper option, wondering why they need 4GB extra of data or if access to your customer chat will make much difference in the long run.



Requires a deeper understanding of leads to implement successfully

Although some might attempt to wing it, tiers require an extra level of customer understanding to get right.

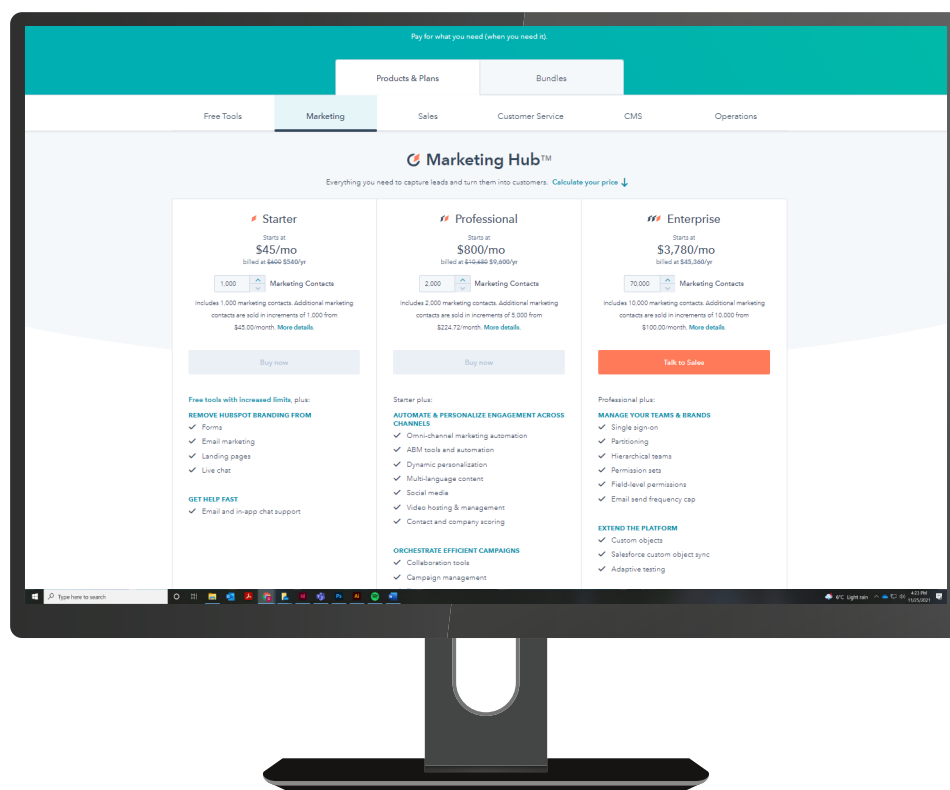


Basic or three-tiered pricing (with example)

Most people are familiar with basic tiered pricing. At its simplest, this is a three-tier strategy and often differentiates each offering by types of business (for instance, small, medium, enterprise). You can find examples of it on almost any SaaS website. However, other industries also adopt it as it's an easy way to differentiate between each level.

Of course, the basic version can still sell a complex assortment of services and products. The trick is to present it in a universally understood way to help companies quickly and easily identify which tier matches their needs. It's worth noting that it's not straightforward, and not every company can split its offering into three simple tiers. There are cases where up to seven tiers may seem appropriate.

Hubspot is an example of a CRM company that uses three tiers effectively. It's easy to see at a glance which option would be most appropriate based on your company's size or the number of contacts you need to manage.



Feature-based tiers (with example)

Feature-based tiered pricing is among the most effective strategies used to differentiate between tiers. It's handy for companies offering many different services or products and allows users to decide what features make the most sense for their situation.

Anything can be a feature, and so to implement this, you need to make a comprehensive list of all you have to offer. Be sure to include access to customer care and knowledge bases. It may be worthwhile for many customers to jump up a tier if they know they will receive more support or training.

Microsoft uses feature-based tiers to differentiate between Microsoft 365 (for family and personal use) and Office (for students). The pricing comparison table shows the value of the premium 365 options compared to the classic option, incentivizing customers to select the recurring subscription. It has a wealth of features that the one-time purchase does not. The tiers make you see the value of a cheaper subscription compared to the hefty upfront fee for a lifetime license. It's also interesting to note that technical support is a feature.

Compare Microsoft 365 with Office

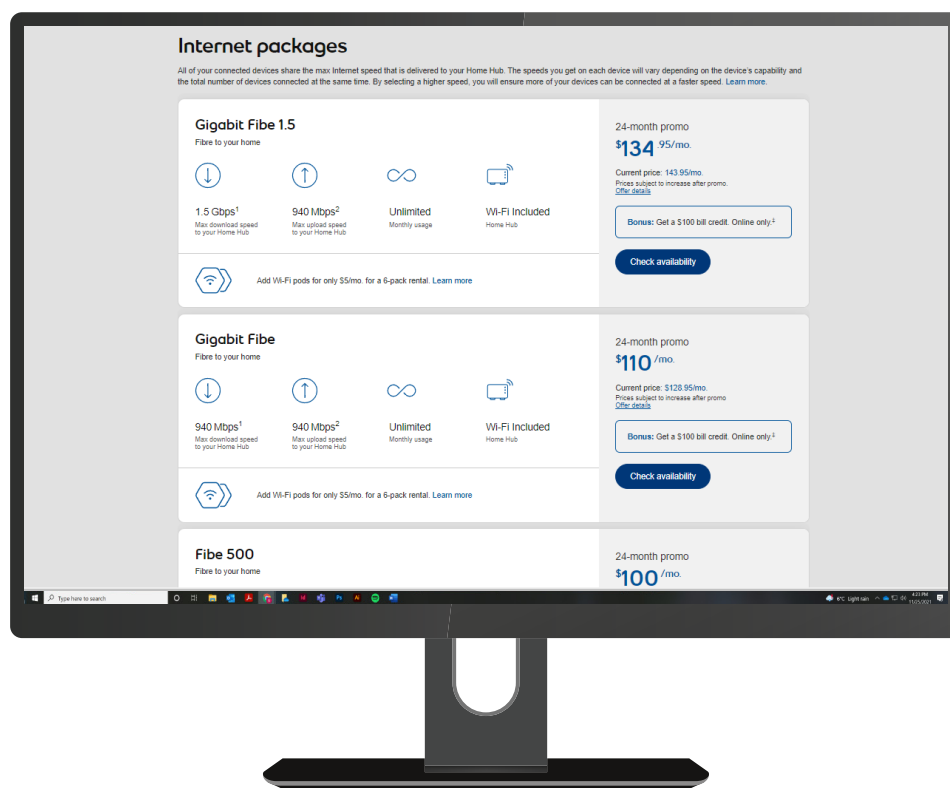
| | Microsoft 365 Family | Microsoft 365 Personal | Office Home & Student 2021 |
|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|--------------------------------------------------------------|
| | CAD \$109.00/year Buy now Or buy at CAD \$11.00/month Try free for 1 month > | CAD \$79.00/year Buy now Or buy at CAD \$8.00/month | CAD \$169.00 Buy now One-time purchase |
| Usage | 2-6 people | 1 person | 1 PC or Mac |
| Word, Excel, PowerPoint, OneNote | Premium | Premium | Classic |
| OneDrive cloud storage to back up files and photos | Up to 6TB (1TB per person) | 1TB | |
| Teams | ✓ | ✓ | |
| Microsoft Family Safety mobile app ¹ | Premium | | |
| Outlook | Premium | Premium | |
| Works on Windows, macOS, iOS, and Android | ✓ | ✓ | |
| Advanced security for email and files | ✓ | ✓ | |
| Ongoing technical support | ✓ | ✓ | |
| | Learn more > | Learn more > | Learn more > |

Usage-based tiers (with example)

A usage-based approach to tiered pricing can have powerful results and, when appropriately executed, increase conversions. It is beneficial for services with obvious value metrics such as data, internet, or phone plans. Anywhere where it is easy to understand why the price jumps with volume for each tier. Heavy users will often upgrade to a higher tier if they find themselves regularly maxing out their usage limits.

Generally speaking, there will be more tiers in usage-based tiered pricing to prevent abuse by heavy users. One way of combatting overload is to stack the tiers vertically and allow customers to scroll through their options, comparing two or three plans on their screen at a time. The more traditional method of horizontally lining up tiers may be overwhelming when there are so many options.

Bell Media's pricing page is an excellent example of this strategy. They've made a lot of detailed information straightforward by using icons and minimal text to convey value. The pricing page design allows you to scroll to your preferred price point and compare options on either side of it.

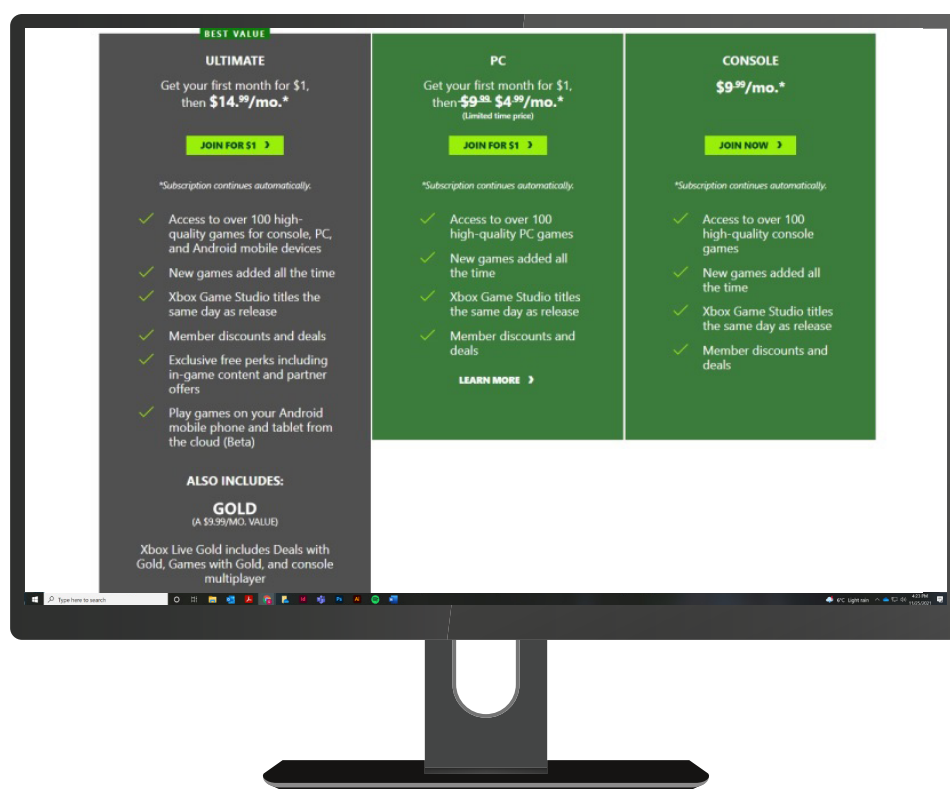


Preferred options strategy (with example)

The preferred option strategy highlights one tier as the optimal choice. Technically, it can be used in any tiered pricing situation, but it is most effective in cases with very little ambiguity around who the ideal customer is. While tiered pricing strategies often seek to service many personas, some companies will have a similar audience for all tiers.

Highlighting one of your tiers (as recommended, preferred, popular, or best value) can help guide customers who may feel overwhelmed by more than one option. The only caveat is that if you choose to highlight a particular tier, make sure that the reason for highlighting it is apparent. For example, if you were to say “best value” for a tier that does not seem to convey the most value, you may lose out on conversions or create a feeling of distrust in those browsing your options.

Gamepass by Xbox is an example of the preferred option strategy. Not only is the “best value” option a different colour from the other tiers, making it stick out in your mind, but the small hike in price in comparison to the others is easily accounted for by the extra features listed. Again, this is an illustration of how to simplify a complex offering. Even the naming of each tier is clever, and gamers will likely opt for the “ultimate” version given the flexibility of using multiple devices and the access to games in the cloud.

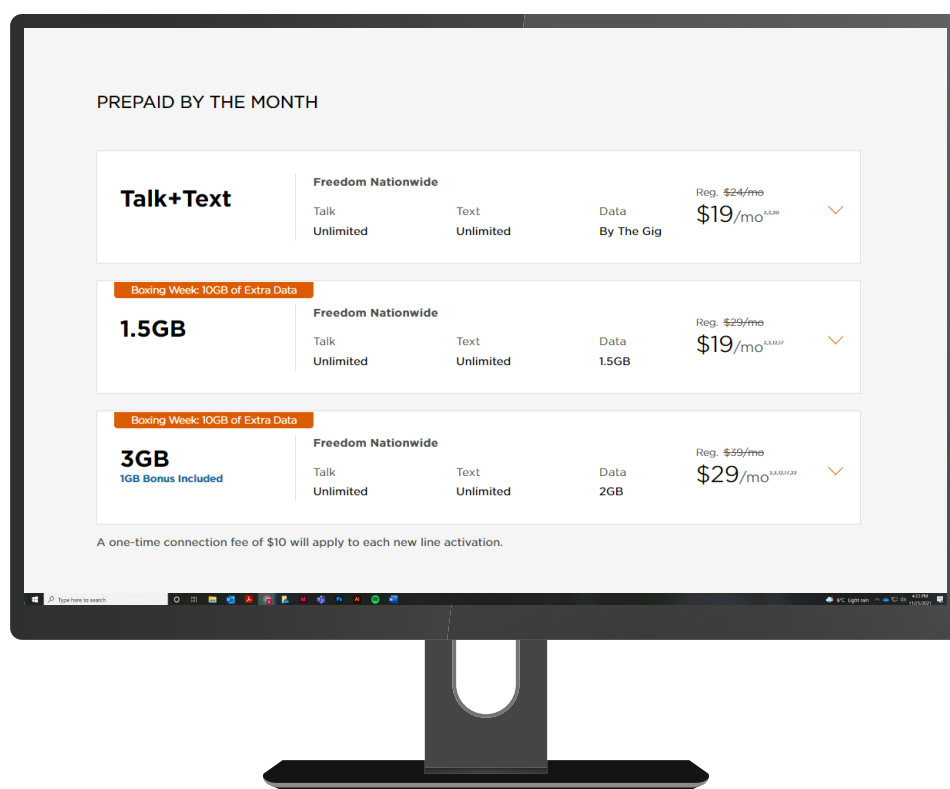


Penetration pricing strategy (with example)

Penetration strategy is often used in tiered pricing models when a company is entering a saturated market. The pricing page is designed to convert as many new users as possible, making the bottom tier cheap enough to be excellent value (often undercutting the competition to gain market space).

This strategy is not a permanent one, and its most effective use is to gain market real estate in an already competitive market. For instance, when Disney Plus first launched, the pricing undercut Netflix, ensuring that customers did not feel they needed to choose between Disney Plus and Netflix but rather could afford both. One disadvantage of a penetration strategy is that it will require your team to raise prices later.

Freedom Mobile is a phone plan company that provides an example of a penetration pricing strategy where tiers are designed to hook customers with low prices. You will commonly see this strategy implemented across phone and internet service providers as smaller companies struggle to gain market dominance against omnipresent brands.



A short guide to revenue recognition for tiered billing

Managing revenue recognition and deferred revenue for tiered billing does not have to be complicated. Many companies can be tentative when implementing subscription billing simply because they're unsure how to remain compliant with accounting standards like ASC 606. The key to compliance is in understanding the need to recognize, reallocate and defer revenue as required.

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For instance, sometimes tiers will be sold for an annual fee, with the first six months discounted or a two-year contract where the first year is at a discount. To properly recognize this revenue, you would need to average the price across the duration of the agreement, recognizing revenue as it's earned.

Another thing to note is that customers may pay the total cost of a subscription upfront due to an annual fee. However, this revenue is not fully earned or recognized until the year of service has been completed, and you would need to divide the recognition over the year.

Managing the complexity of tiered billing

It perhaps comes as no surprise that companies will not implement tiered billing without careful consideration. Taking the time to truly understand pricing psychology and the various approaches will allow you to implement tiered pricing.

The 3 critical elements of your tiered billing strategy

1. Decide on a target audience for each tier

It's perhaps clear that one of the essential elements required for a successful tiered pricing strategy is a solid understanding of who your customer is and what they want. Although it may seem easy to pull together a bunch of features and services then give them names like "business" or "enterprise", this approach lacks the nuance required to master this pricing strategy. Stepping back and conducting adequate market analysis and customer research will be critical.

2. Simplify each tier to increase conversions

Many people struggle to make a decision when faced with too many options. It may be tempting to design fifteen different tiers and give an exhaustive list of features and services for each one, but the likelihood is that most customers will not have the energy to digest so much information. It's wise to work on your tiers until they're as simple as possible to prevent confusion.

3. Manage recurring and deferred revenue

At first, it may seem possible to manage recurring revenue manually, but as your customer base grows, you will need to rely on automation to handle subscriptions and billing. Remaining compliant with standards like ASC 606 and IFRS 15 will become impossible without a system that enables error-free invoicing and global compliance.

Introducing Subscription Billing Suite

A comprehensive solution for billing, deferrals, and recognition that streamlines the entire quote to cash process at every step from billing and invoicing to reporting and forecasting. It provides consistent and reliable invoicing for a wide range of pricing models and allows you to take control of your pricing and billing schedules at the line-item level within Microsoft Dynamics 365 for Finance and Operations, Microsoft Dynamics 365 Business Central, and Microsoft Dynamics GP.

What our customers say

Wonderful, wonderful, wonderful. A joy to work with Binary Stream. Everyone was super helpful and positive, which had a big impact on the success of the implementation.



What makes Binary Stream different from other software companies we have worked with is their ability to truly listen to customer input and enhance their subscription solution to meet those needs.



Since I have come on board, Subscription Billing Suite has paid for itself more than once over. Having this solution to help us manage over 10,000 deferred contracts is an essential part of our financial processing.



I've long been a fan of Dynamics, and Subscription Billing Suite met and exceeded every feature of our previous solution. However, the factor that made this project a success is having a partner who augmented our internal integration efforts.





Start your financial transformation journey today

Learn more by reading our complete guide to subscription management, offering insights into billing models, pricing page psychology, and plenty more.

[Discover more](#)