Raising Prices For Your Product: Should You Do It? If So, How?

Price is one of the most powerful levers you have in your business. So how should most companies think about pricing?

There Are Only 2 Ways of Increasing LTV

Despite all the complications a subscription model brings to calculating LTV, it's still one of the most important metrics you have as a company.

If you want to increase the value of your company in a sustainable way, you need to increase revenue. To increase revenue, you should focus on getting LTV as high as possible.

There are only 2 ways of doing this:

1. Get users to stay around longer
2. Get users to pay you more per month/cycle

As I've mentioned in previous posts, getting users to stay around longer can be tricky for mature products, as many products sit in a use case with a certain "natural" end to them that is only a few months long.

If your product focuses on diet, fitness, meditation, finding a job, dating (etc.), then you're probably looking at average user lifecycles under 6 months.

Short of selling annual plans or lifetime plans, as many companies in this space have done, this isn't a lot that you can do to scale up LTV that isn't a price raise.

There is no definitive measure that will tell you if you are charging too much or not enough. You have to research your competitive set and test this change for yourself.

The thing that you should be trying to do is to charge the maximum price for your users, your strategy, and the growth rates that you want.

The Good and the Bad of Price Raises

Price raises are tricky because they have: knowable positive impacts, unknowable positive impacts, knowable negative impacts, & unknowable negative impacts.

Some of these will show up within the measurement window of an A/B test, others won't.

You can't say exactly what is going to happen, but assuming that you run a successful pricing test (more on that below), you should be able to anticipate a range of impacts:

Potential Positive impacts:

- Increase the LTV of your user base, which will allow you to spend more to acquire users.
- This opens up new acquisition channels, fueling additional user growth.
- Likely attracting a higher "quality" user, who is more committed to your product, this *might* lower associated support costs as these users if those are material.
- Raise the enterprise value of your company, which allows you to raise more money if you need it and/or attract a higher talent level of employee.

Potential Negative Impacts:

- Throw off your existing LTV calculations, as mentioned in the post above.
- By definition, you'll have to see users at this new price point reach the end of their lifecycle. This, in turn, might throw off your CAC to LTV spending ratio in paid media.
- It changes where your brand sits in the mind of a consumer, which might need to initiate more branding work. This will only happen if you go from the lowest price to medium or medium to the highest.
- Unlikely to matter if you are adding a dollar to your price as Spotify did.
- Potentially turn slow down word of mouth and brand growth. If you raise your prices successfully, you will likely have a smaller group of users paying you more.
- This slightly smaller user base means that there are fewer people to tell other people about your product, which slows down word of mouth.
- Users are also way more likely to talk about a product they see as a great tradeoff between what they pay and the value they receive.

So What Should You Do With This Information?

Despite the complexity and uncertainty on this topic, I am still a big believer in testing your pricing several times per year.

There is no faster way of raising revenue than just charging more for the product. Patrick Campbell has mentioned testing a price raise once a quarter, which I agree with, especially for more mature companies (on this podcast, which is great, by the way).

I have never met a company that wasn't emotional about their prices and didn't have an internal bias against raising prices, mostly based on fear of failure.

It's just human nature. Price is where you have to put a number on all the hard work that you have done and see if the market accepts it. That alone produces anxiety.

Assuming you want to test this (and you should), I would do the following.

Decide Who You're Raising Prices For

There are many ways to raise prices; the least risky one is just raising them for new users who have never tried the product. They don't have a concept of the "existing" pricing, so there is not a lot of risk of blowback.

The riskiest version is raising prices on the existing users. This is where companies typically experience the most blowback.

Other, more subtle tactics include raising the prices of one of your plans, such as the monthly plan only.

Alternatively, if your paywall structure has any concept of metering (such as Zapier does with the number of tasks), you can lower the amount of credits in a tier which effectively increases the price.

This is one of the many reasons I like metered paywalls: it gives you a lot of flexibility.

Run a Pricing Test

There are a lot of methodologies to do pricing research, all of which sounds very fancy and impressive, but none of them will tell you what your users will actually pay for the product with the same degree of confidence as a pricing test.

When we did this at Codecademy, we did the following:

1. Scrub any mention of pricing from as many pages as you can

It will obviously stay on the pricing page but limit places like blog posts, forums, and drip email sequences where users might not see the same price package they see on the product. This makes test setup a lot easier.

You might have to exclude any users coming in through paid channels who may or may not have been exposed to pricing.

2. Set up & Run an A/B test

Design the test to both controls for risk and make sure you measure to a high level of confidence.

Our primary KPI was revenue per allocated user, meaning we wanted to increase the overall revenue of the user base. We only tested on new users.

We measured through the end of the first month of churn and our trial period. We also actively monitored plan ratios (between monthly and annual) on the platform.

3. Communicate results widely in the company

Ensure everyone understands the value created and you have full exec-level buy-in on the results.

You need a high level of buy-in to get these tests approved, so allocate time to chase down all the edge cases and lingering questions.

Announce Your Price Raise to Users

Be clear on who is and who will not be paying more, and have a reason why. This is the post we ran at Codecademy; here are Spotify's from this year and DropBox's from 2022.

The most common argument that a company makes in these posts is that they have added a lot more value to the product. Whether this is true is debatable, but it seems to be the standard line.

I'd suggest being clean on the mechanics of the following:

- Who this impacts and doesn't impact
- How/when it happens
- What happens in the main edge cases (like annual plans, geo-based prices, team packages, etc.)

Maximize Secondary Opportunities

At Codecademy, we did 2 other things that gained us some additional revenue from a price raise.

1. Run a mini marketing campaign to sell annual plans

We were raising prices across the board, so we took the chance to sell a few more annual plans with the message of "lock in a lower price" before this happens.

2. Tell users who are grandfathered at lower prices this during cancellation

Because we were only raising prices for new users, we dropped a quick message in the cancellation flow for users telling them that:

- They were paying a lower price than is currently offered
- If they cancel, they’ll have to pay the higher price
- Give them an option to “pause” billing for a few months if they need a break

This wasn’t a major needle mover, but every little bit helps lower churn.