YL VENTURES

A Guide to Pricing Your Product

Value-Add Playbook
for Cybersecurity Startups

When Should You Start Thinking About Pricing?

As soon as you've settled on an MVP to start pitching to customers, you should start to think critically about pricing because
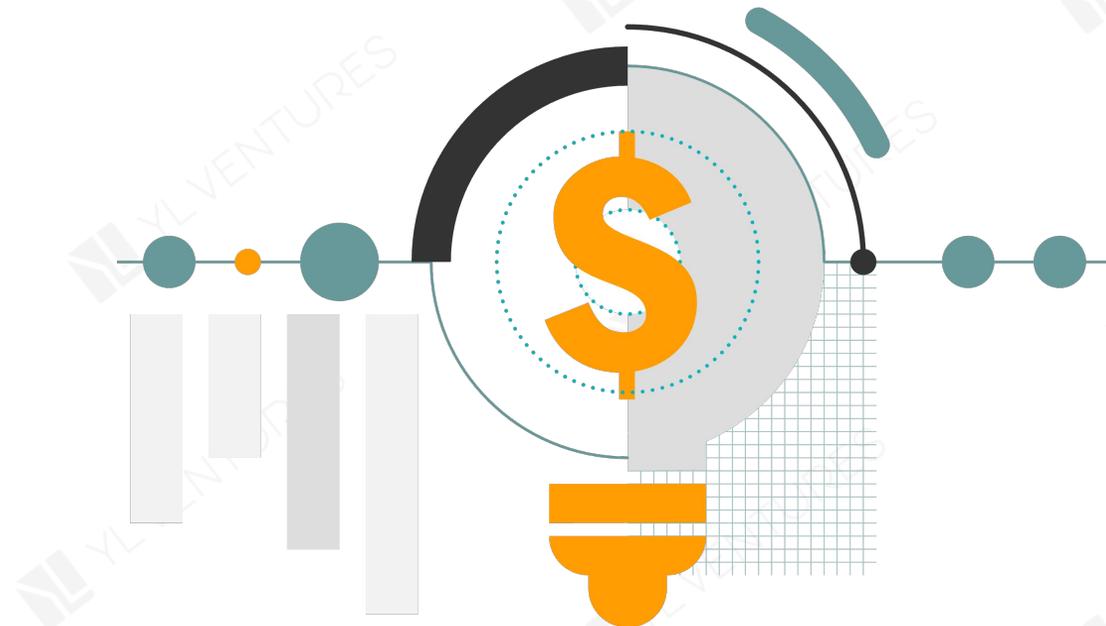
Optimizing pricing can be a **competitive advantage** over others who may be less rigorous

Your approach to pricing **directly affects customer adoption and retention**

Pricing is an **often-ignored growth driver** as an important revenue multiplier that can improve margins on the path to profitability

Your thinking around pricing will evolve as you conduct market research and engage with potential customers, but it's almost never too early to start!

First Steps

As you navigate customer discussions, **ask yourself these key questions about your positioning** to help you put your pricing into context

Addressing these questions with your team, your advisors, and your investors **will help you analyze various pricing strategies** and arrive at the right model for your business

Be prepared for a lot of back and forth – pricing is always important, but rarely simple!

Key Questions

1   What problem does your product uniquely address?

2   Is there a straightforward way to demonstrate ROI for your product?

3   What is your primary market segment(s) and who is the buyer within that segment?

4   Why should a customer choose you over your competitors?

Find the Right Pricing Strategy

Combining these strategies will help you arrive at a model that covers costs with a healthy margin, is competitive, and reflects the value you're providing.

Cost-Plus	Value-Based	Competitor-Based
Key Benefits		
✔ **Simplest, most widely used approach** for setting an initial price point	✔ **Addresses the key question**: What is the customer's perceived ROI for using your product?	✔ **Easier for early customers to understand,** since your solution is in the context of the market
✔ **Easy to calculate,** since you have full visibility into your own costs	✔ Allows for **pricing optimization** with packages and price points that precisely meet customer needs	✔ **Helpful framework for newer companies** without a long sales record who may be unsure of their value or where ROI is not straightforward to calculate
✔ Ensures you will **cover your basic costs,** with at least some profit	✔ Can be used to justify a **higher price than competitors**	
Key Considerations		
✗ **Total costs may increase over time, adding complexity** and driving up prices	✗ Value-based pricing **requires time-intensive research** and can also be quite complicated	✗ **May leave money on the table**, if your product is providing significantly more value than your competition
✗ **Prices you "in a vacuum"**, disregarding the competitive landscape and your unique value	✗ **Can be risky** if you're over-reliant on feedback from a small number of similar customers	✗ Startups in newer categories may find it **difficult to find apples-to-apples comparisons**

Pricing Models

Usage-Based / Volume-Based	Per-User / Per-Asset	Per-Feature	Tiered
Key Benefits ✔ **Keeps costs down for early customers,** and is intuitively "fair" ✔ **Attractive to young companies** unsure about long-term commitments ✔ **Heavy users charged appropriately**	✔ **Keeps costs down for early customers** who aren't heavy users ✔ **Scales linearly**, making it easier for you and the customer to forecast revenue and costs ✔ **Easy to explain** and communicate	✔ Flexibility allows for **direct customer targeting** ✔ **Easier to upsell**, with additional features capturing additional value ✔ **Helps compensate for features** with higher development costs	✔ **More direct customer targeting** through flexible packages at different prices (e.g., for both SMBs and enterprise) ✔ **Easy to upsell**, with tier prices increasing as you provide more value to customers
Key Considerations ✖ **Simplistic model that might not capture value** to the customer ✖ **Difficult to forecast revenue and costs** for you and the customer ✖ **Penalizes customers** for increased adoption	✖ **Penalizes customers** for increased adoption ✖ **Incentivizes license-sharing** ✖ **May not capture true value** to customers	✖ **Difficult to perfect** to put the right features in the right pricing bands ✖ **May increase churn** for customers not getting the full feature-set ✖ **Does not address different usage levels**	✖ **May be overly complicated** ✖ **May obfuscate your value** with too many options ✖ **Difficult to explain** and communicate

Jira:
A Flexible Pricing Example

Jira is offered in both annual and monthly billing cycles with Free, Standard, and Premium packages:

- 10 users is the maximum for the Free version, while Standard and Premium accounts can support up to 35K users

- Annual billing is cheaper than monthly

- On a per user basis, the prices fall as you add more users (see examples to the right for 10, 100, and 1000 users on a Standard account)

- Atlassian published this Cost Calculator to help people analyze the pricing model in a transparent way

When starting out you won't need anything nearly as complex and customizable as Jira's model.

But flexibility allows for targeting different sized customers with different needs, and the calculator makes pricing easier for customers to evaluate.

Your products:

Jira Software
Select Plan: Free ○ Standard ● Premium
Enter users: 10
35,000 users is the max for the Standard plan.
Any apps? Yes ○ No ●

Billing Cycle: Monthly / Annual
Jira Software — Users: 10 — $77.50
TOTAL MONTHLY PRICE
$77.50*
*Tax not included

Your products:

Jira Software
Select Plan: Free ○ Standard ● Premium
Enter users: 10
35,000 users is the max for the Standard plan.
Any apps? Yes ○ No ●

Billing Cycle: Monthly / Annual
Jira Software — Users: 10 — $790
TOTAL ANNUAL PRICE
$790*
*Tax not included

Your products:

Jira Software
Select Plan: Free ○ Standard ● Premium
Enter users: 100
35,000 users is the max for the Standard plan.
Any apps? Yes ○ No ●

Billing Cycle: Monthly / Annual
Jira Software — Users: 100 — $775
TOTAL MONTHLY PRICE
$775*
*Tax not included

Your products:

Jira Software
Select Plan: Free ○ Standard ● Premium
Enter users: 100
35,000 users is the max for the Standard plan.
Any apps? Yes ○ No ●

Billing Cycle: Monthly / Annual
Jira Software — Users: 100 — $7,750
TOTAL ANNUAL PRICE
$7,750*
*Tax not included

Your products:

Jira Software
Select Plan: Free ○ Standard ● Premium
Enter users: 1000
35,000 users is the max for the Standard plan.
Any apps? Yes ○ No ●

Billing Cycle: Monthly / Annual
Jira Software — Users: 1,000 — $5,890
TOTAL MONTHLY PRICE
$5,890*
*Tax not included

Your products:

Jira Software
Select Plan: Free ○ Standard ● Premium
Enter users: 1000
35,000 users is the max for the Standard plan.
Any apps? Yes ○ No ●

Billing Cycle: Monthly / Annual
Jira Software — Users: 1,000 — $59,000
TOTAL ANNUAL PRICE
$59,000*
*Tax not included

Converting Design Partners

Successful startups work with **a large stable of design partners who often receive steep discounts** in exchange for their time and the value of their data, feedback, and references

Most design partners are **comfortable paying something.** Find out what price would work for them, and when in doubt, err on the side of simplicity!

If you deliver on your promise, you'll have a **chance to optimize pricing and right-size the contract** later on
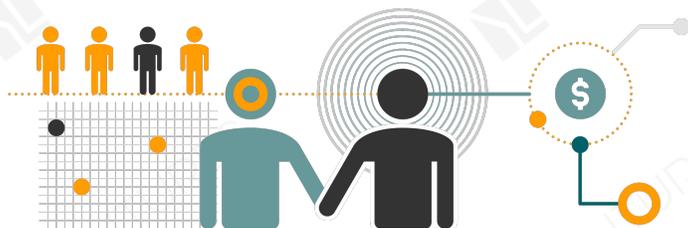
Key Questions

1 What would you normally plan to charge this customer in Year 1 if your product was already in the market?

2 What are the customer requirements needed to provide them enough value to pay for your product?

3 Is the design partner willing to be a public reference and provide testimonials on your behalf?

4 Does your pricing have enough flexibility to satisfy both your champion and their other stakeholders?

Key Takeaways

Always consider the value you're providing in order to optimize your pricing and customer adoption and retention.

Consider your ideal customers to accurately tailor pricing packages to your customer base.

Offer flexibility but make your pricing structure easy to understand and easy to sell.

Expect to offer large discounts to early adopters who may provide public testimonials, website logos, or even referrals.

Final Thoughts

1. Competitive analysis, customer research, and early feedback are all critical in pricing your solution
2. Don't be afraid to revisit pricing from time to time, but err on the side of simplicity, especially when you're getting started

Thank you!

YL Ventures funds and supports brilliant Israeli tech entrepreneurs from seed to lead. Based in Silicon Valley and Tel Aviv, YL Ventures manages over $800M and specializes in cybersecurity.

YL Ventures accelerates the evolution of portfolio companies via strategic advice and US-based operational execution, leveraging a powerful network of CISOs and global industry leaders. The firm's track record includes investment in Israeli cybersecurity unicorns Axonius and Orca Security, as well as successful, high-profile acquisitions by major corporations including Palo Alto Networks, Microsoft, CA and Proofpoint. Exclusively invests in cybersecurity.

YL VENTURES

Thank you!

If you have any questions, we encourage you to
reach out to **michael@ylventures.com** or visit us at **www.ylventures.com**