

Should You Offer Monthly or Annual Pricing for Your SaaS?

*This is an extra resource to go along with the original article:
[6 SaaS Pricing Models: Which Should You Choose?](#)*

The Monthly vs. Annual Conundrum

Not sure which pricing model to use for your SaaS? Let's look at the pros and cons of each.

The Monthly Pricing Model

Should you consider a monthly pricing model for your SaaS?

Pros of Monthly Pricing

- Easy in for customers who are unsure about the true value of your service.
- While more expensive in the long run, it feels more affordable to your customers when broken down into easy monthly payments.
- On your end, it's easy to analyze your churn rate.
- Consumers prefer the "no pressure" option of a pay-by-the-month model.
- You'll earn more from the customer over the long haul.
- You're more likely to stay in contact to keep the customer happy.

Cons of Monthly Pricing

- Customer churn is much more likely to happen.
- You have a higher probability of rejected payments (client doesn't pay, the credit card is declined for being over the limit, the credit card is expired).

Best Practice: If offering monthly billing, encourage customers to take advantage of automatic billing so that you don't need to ask them every month to pay for their service. Consider providing an upfront incentive for automatic billing.

The Annual Pricing Model

Should you go with an annual pricing model instead?

Pros of Annual Pricing

- You're likely to have a longer customer lifespan.

- You have a lower churn rate because the customer has a chance to truly evaluate your service before canceling. (Churn is higher when customers can drop out after a month or two of service.)
- Annual pricing increases how much you receive from the customer immediately— Your cash flow is better.
- You reduce worry around expirations and/ or declined cards.
- You make the service more affordable for the long term.
- You'll pay less in transaction costs because you'll have fewer transactions each year (once every 12 months instead of once a month).

Cons of Annual Pricing

- It can be difficult to sell customers on a higher upfront fee.
- You get less because you are likely to advertise the annual fee for less. This common business practice makes it more attractive to opt for annual pricing over monthly.
- You need to work harder to stay in contact with your customers. When you have longer-term clients, it's easier to forget them until renewal time.

Best Practice: Don't force annual pricing on your customer base. Offer both annual pricing *and* monthly pricing and give them the choice. To nudge them towards an annual agreement, you can highlight the price difference between the monthly and annual.