What Is The Optimal Contract Length For Your SaaS Startup?



Image by Yoel Ben-Avraham

It’s common to see SaaS (software as a service) startups initially price their products on a monthly basis, then add an enterprise “Call Me” plan which hides behind it an annual contract. As the business increases its price point, it may eventually book contracts spanning two, three or even five years, explains **Tomasz Tunguz**, a venture capitalist at Redpoint.

“This pricing pattern has a certain rationale to it. It enables an early-stage software company to rapidly gather feedback,” **he writes in the article**. “At the outset, when the business prices on a monthly basis, the startup is looking for as much information about the strength of their product market fit as possible.”

“Annual contracts bring predictability to a SaaS startup. Revenues committed for 12 months, and the cash flow characteristics of annual prepay contracts are an enormous boon for the business, reducing the total amount of financing the might have to raise.”

Read the article.