How Free Trials Work

SaaS Product-Led Growth

ORDWAY

A Guide for SaaS Leaders

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Acquisition Strategies for PLG

Product-led growth companies have three primary strategies for converting paid customers. Each option offers different purchasing time frames and levels of product exposure during the buying process.
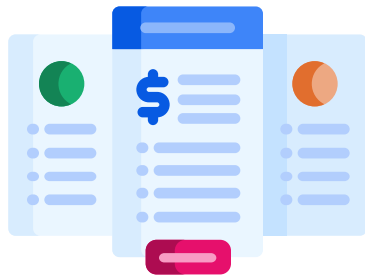
Buy Now Online	Free Trial (14 or 30 Days)	Freemium (Free Forever)
The customer decides to purchase the product after landing on the website. There is a self-service-service checkout that allows the customer to purchase directly online.	The customer registers for a free trial to experience the paid version of the product. At the end of trial, the customer decides to upgrade to a paid plan using a self-service checkout.	The customer registers for a freemium plan with limited features. At some point in the future the customer decides to upgrade to a paid plan using self-service checkout.

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Designing Free Trials

In this guide, we will focus on free trials, which are the most popular new customer acquisition strategy for PLG companies.

Self-Directed Buying

SaaS providers with free trials focus on building full-featured products that are highly intuitive and easy for customers to learn by themselves. The strategy is to get the product to sell itself.

By offering the customer free access to the fully featured, paid version of the product, SaaS companies are placing a bet that customers will quickly see the value and commit to a paid subscription.

Sales-Assisted Buying

Often, however, the customer does need a little handholding and encouragement to convert to a paid plan. During the free trial period, the SaaS provider will send automated emails, conduct sales outreach, and use in-app notifications to encourage customers to adopt the product.

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Free Trial Variables

Not all free trials are the same. SaaS providers optimize for conversion using different combinations of five variables: 1) access, 2) plans, 3) duration, 4) expiration paths, and 5) payment capture strategies.
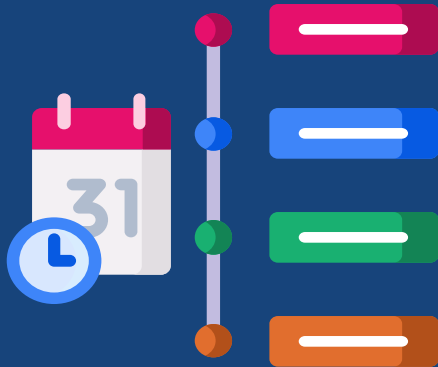
#1 – Access
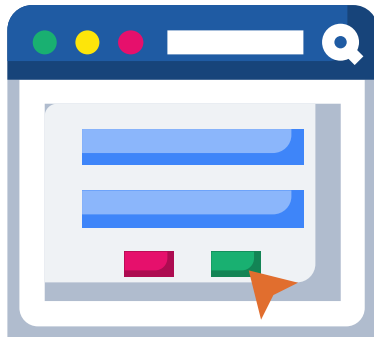
Some free trials are gated, meaning the customer must request trial access. Access is granted after a discovery call with a sales rep. Most trials are open and ungated. The customer registers on the SaaS provider's website and is immediately granted access to the product.

#2 - Plans

SaaS companies offer multiple tiers of plans. The "good-better-best" paradigm is the most common. Some SaaS providers only offer free trials for their lower tier "good" and "better" plans. Few, if any, SaaS providers offer trials for their top-tier enterprise plans.

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#3 - Duration

#4 - Expiration Path

Most free trials are either 14 or 30 days. The goal of the shorter 14-day period is to create a sense of urgency. The expiration date motivates users to test the product before they lose access to the premium (paid) features. Longer, 30-day trials are designed to build stronger product adoption for day-to-day activities. If the user becomes dependent on the product, there will be a higher probability of conversion.
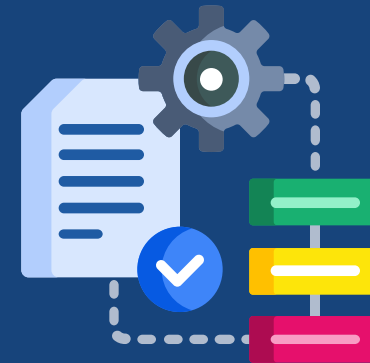
At the end of the free trial, the customer will be encouraged to upgrade to a paid plan. For those that elect not to upgrade, the SaaS vendor can either 1) downgrade them to a freemium version of the product with fewer features or 2) remove access altogether. The most common approach is the freemium downgrade. Freemium keeps the customer engaged with the longer-term goal of converting them to a paid plan.

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#5 - Timing of Payment Capture

The fifth variable, which is perhaps the most important decision a SaaS company needs to make about the free trial is when to collect the payment method.

There are two popular approaches

- **Opt-Out Model**, which collects payment at the start

- **Opt-In Model**, which collects payment when/if the customer upgrades.

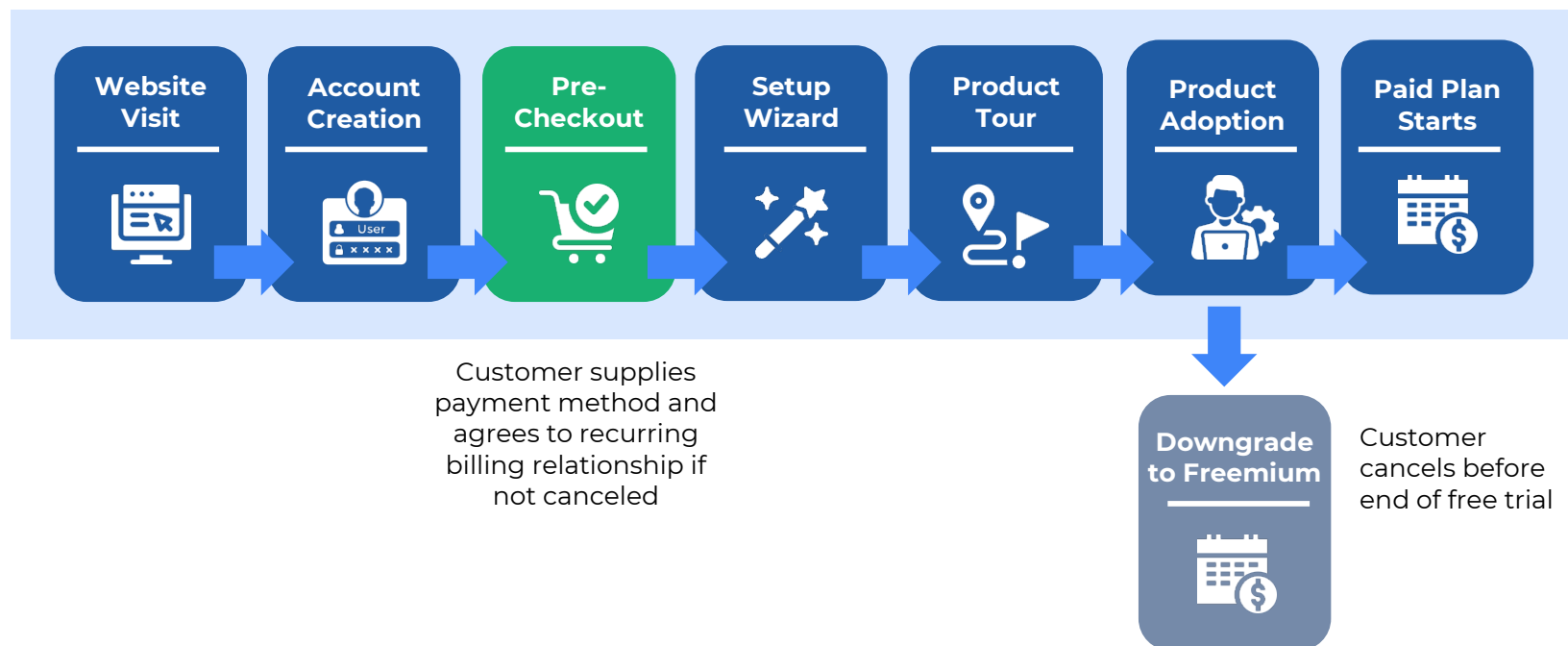There is no "right answer." Both approaches have pros and cons.

Free Trial Opt-Out Model
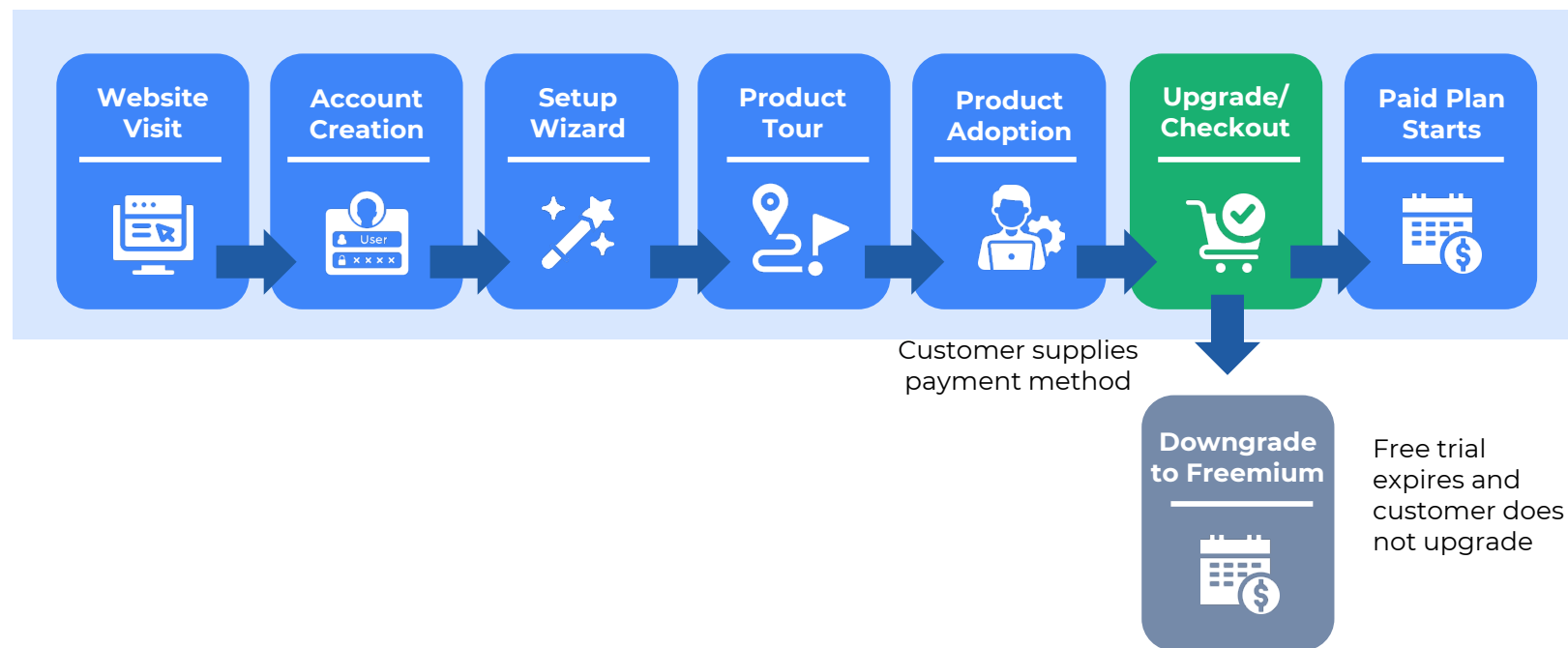
Checkout and Payment Method at the Start

In this model, the payment method is captured upfront. The customer must go through the self-service checkout process to gain access to the free trial. At the end of the trial, the customer is automatically converted into a paid plan unless they take action to opt out. If the customer cancels before the trial ends, they will not be charged and will be automatically downgraded to a freemium plan.

| Website Visit | Account Creation | Pre-Checkout | Setup Wizard | Product Tour | Product Adoption | Paid Plan Starts |

Customer supplies payment method and agrees to recurring billing relationship if not canceled

Downgrade to Freemium

Customer cancels before end of free trial

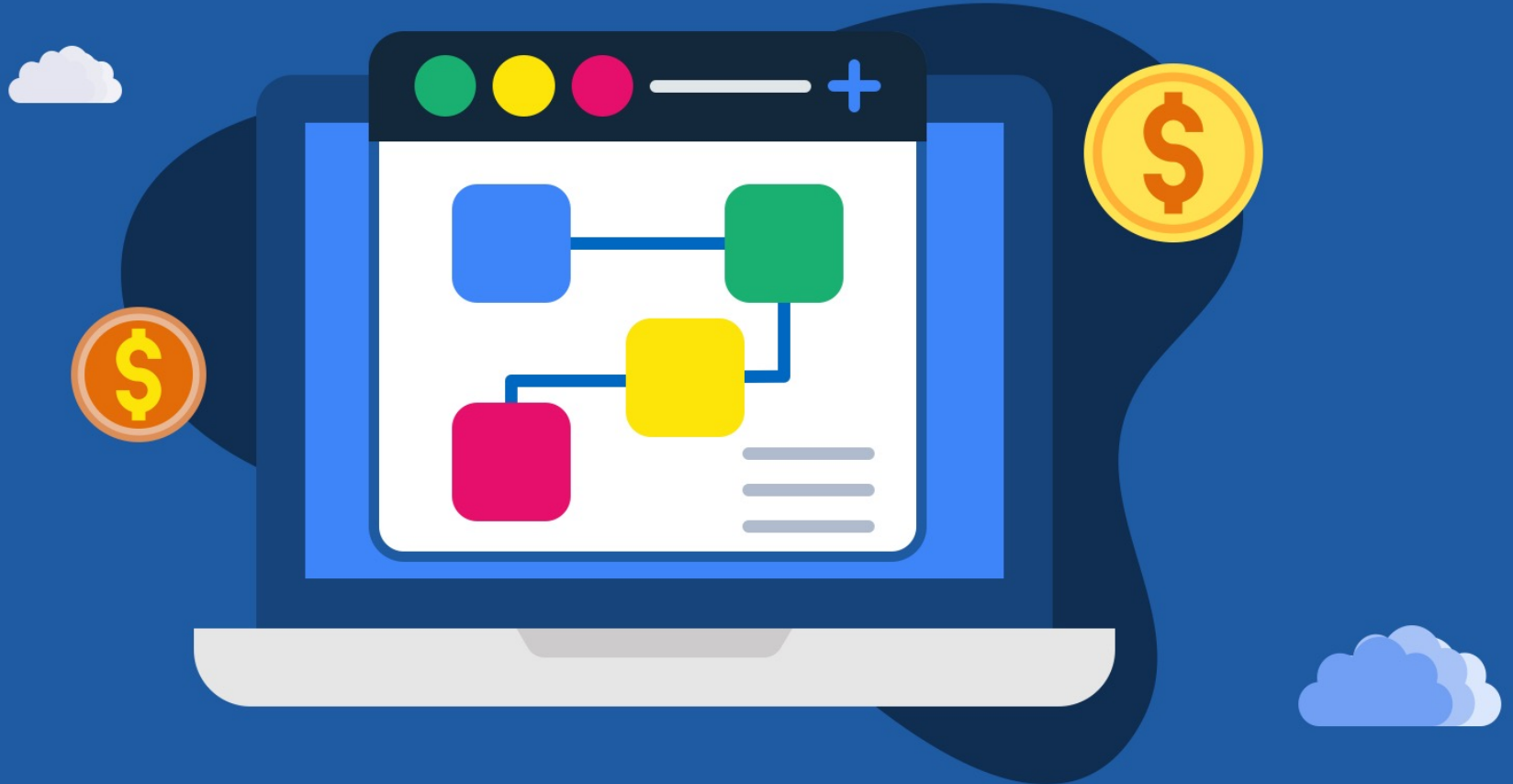**ORDWAY**

Free Trial Opt-In Model

Checkout and Payment Method at the End

In this model, there is no checkout process until the customer decides to upgrade. The strategy is to minimize friction with the registration and get the user hands-on with the product as quickly as possible. The customer is encouraged to upgrade to a paid version throughout the trial period. However, if they do not choose to upgrade they will be automatically downgraded to the freemium plan on the trial end date.

Website Visit	Account Creation	Setup Wizard	Product Tour	Product Adoption	Upgrade/ Checkout	Paid Plan Starts

Customer supplies payment method

Downgrade to Freemium

Free trial expires and customer does not upgrade

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Product Led Growth

How Free Trials Work

Website Visit

Demand Generation

The new customer acquisition process starts with prospective customers landing on the SaaS company's website. PLG companies use a variety of marketing strategies to drive traffic.

The best PLG companies convert their users into advocates who promote the product on private Slack channels, Facebook groups, and other online communities. Others use organic and paid search strategies to drive traffic from Google search results.
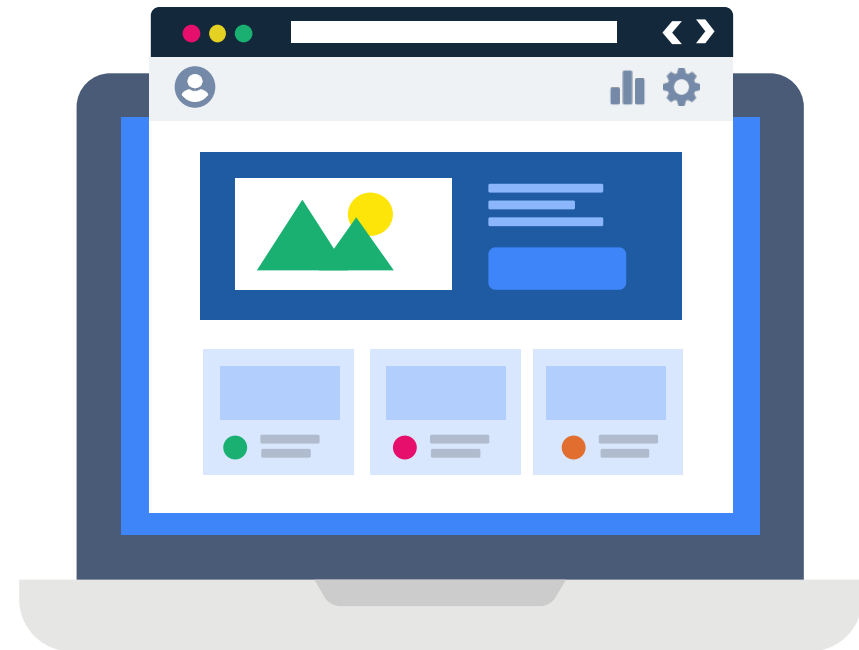
Call-to-Action

Once the customer is on the site, the goal is to drive them to register for the free trial. Throughout the website, there are "calls to action" (CTAs) encouraging the customer to register. Common conversion points are the home page, pricing page, product pages, or landing pages associated with ad campaigns.

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Plan Selection

Clicking on the free trial CTA usually takes the customer to the pricing page, where they must select the specific plan they want to trial. Most SaaS companies have packaged their offerings into multiple tiers, which are differentiated by the level of functionality offered. The "good," "better," and "best" three-tier model is the most popular.
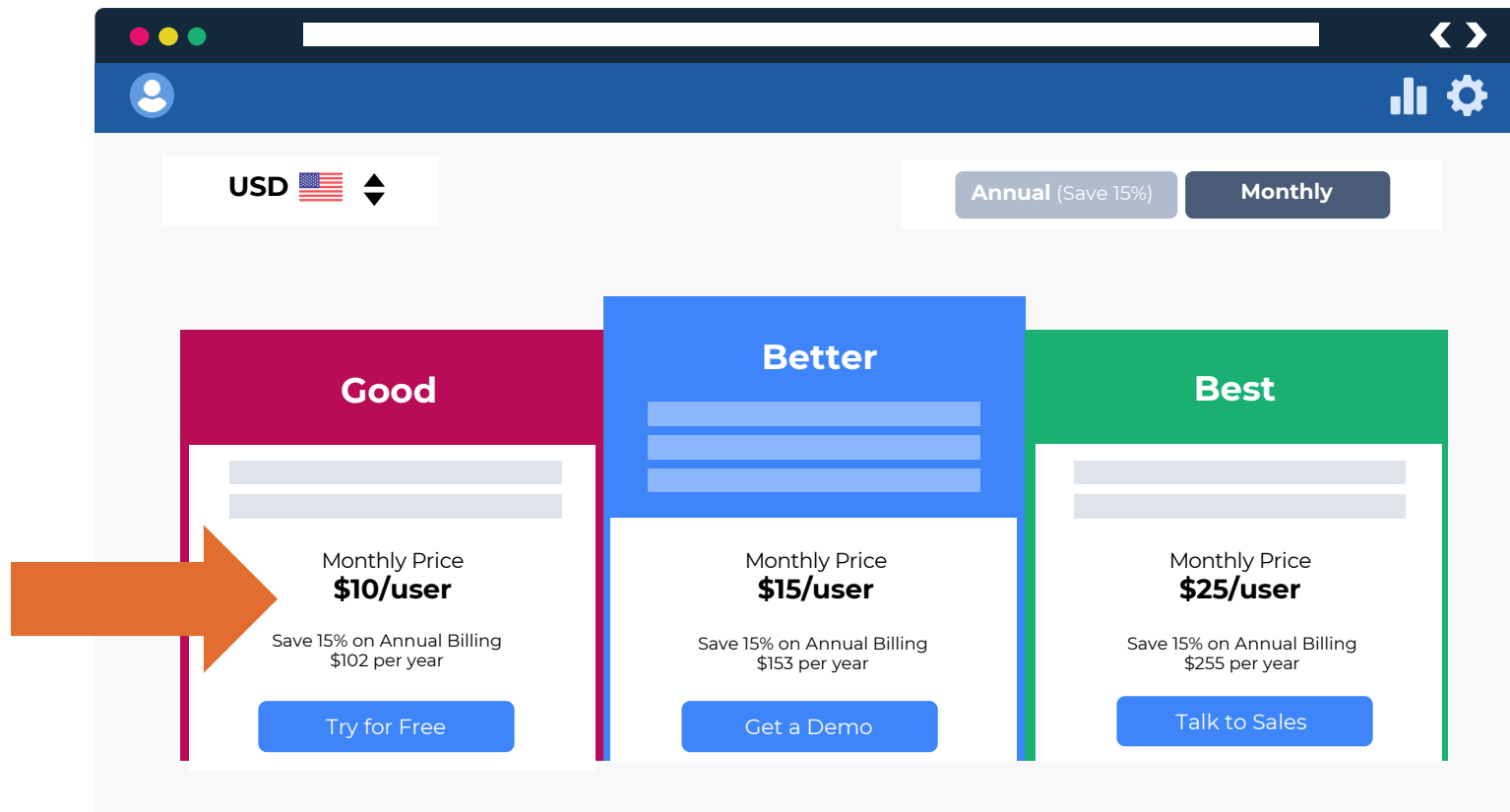
Free Trial Options for Plans

Each SaaS company uses different names for the plans. Let's assume the packages are called "Pro," "Business," and "Enterprise."

Free trials are typically offered for the lower-tier paid plans (e.g., Pro and Business).

However, free trials are rarely, if ever, offered for the highest-tier plan (e.g., Enterprise). Customers interested in the highest tier may be redirected to another page and/or are encouraged to contact the sales team to discuss.

Customers interested in the Pro or Business plans can click on the appropriate button on the pricing table to initiate the free trial registration process.

Questions to consider:

- How many plans do you want to enable a self-service buying experience?

- How should customers interested in the enterprise plan engage?

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Account Creation

The first step in the registration process is to create an account. The information requested from the user for a free trial varies. Most SaaS companies try to keep the inputs to a bare minimum to lower the amount of friction in the registration process. Each additional data point requested requires more effort from the customer and results in lower conversion rates.

Email Verification
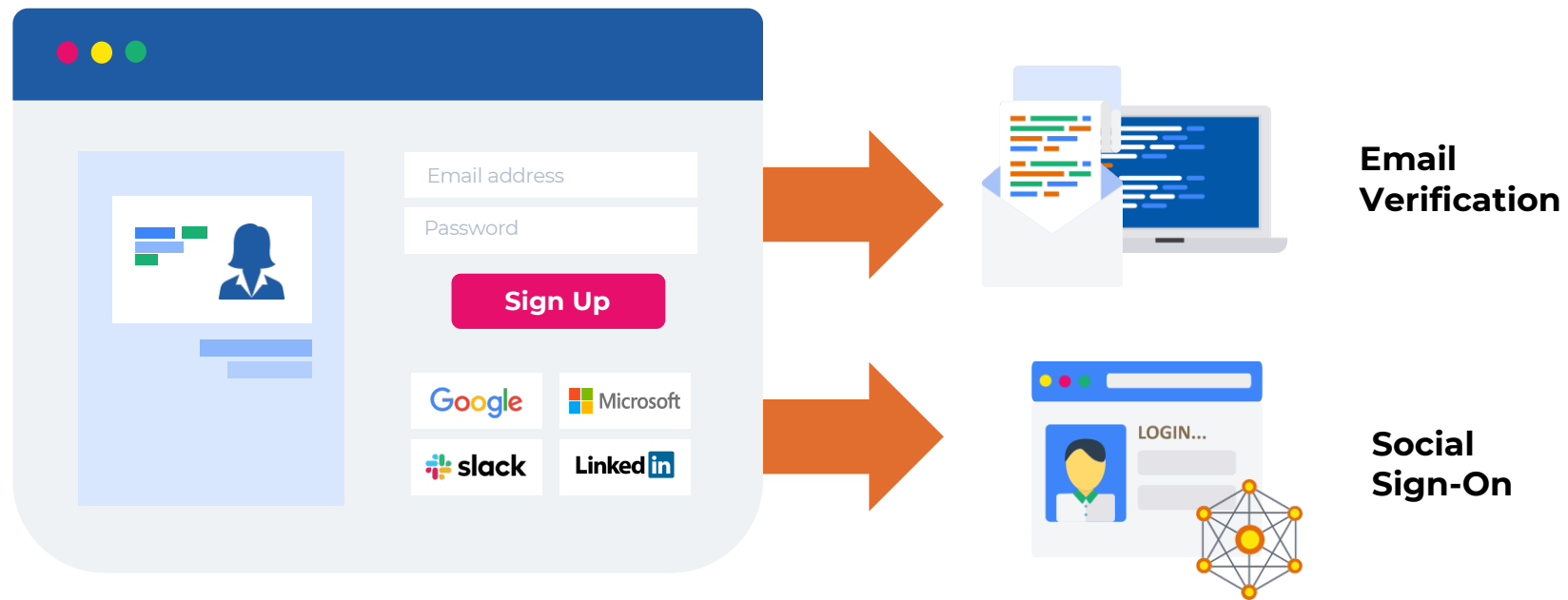
Social Sign-On

The easiest option is not to create an account at all. Instead, users can log in using their Google, Microsoft, LinkedIn, or Slack accounts using "social sign-on."

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Not every customer will want to use social sign on, however. Those that do not will need to create an account by sharing an email address and password.

Email Verification

A verification link or one-time passcode is typically sent to the email address to confirm that the customer has supplied valid contact information.

For example, Hopin collects the user's email address and then sends a six-digit one-time passcode to their inbox. The customer must key the passcode into the app before moving to the next step in the onboarding process.

Examples

Smartsheet

Smartsheet first requests the user's email address. A verification link is sent to the inbox. Once the user clicks on the link, they are prompted to create a password.

Asana

Asana first asks for the user's email and then sends a verification link to their inbox. Once the verification step is complete, users can either proceed with a social sign-on via Google or create an Asana account with their email address. Those who choose to create an account are prompted for their full name and password.

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Product Onboarding

Once the account is created, the user is entered into a guided onboarding process.
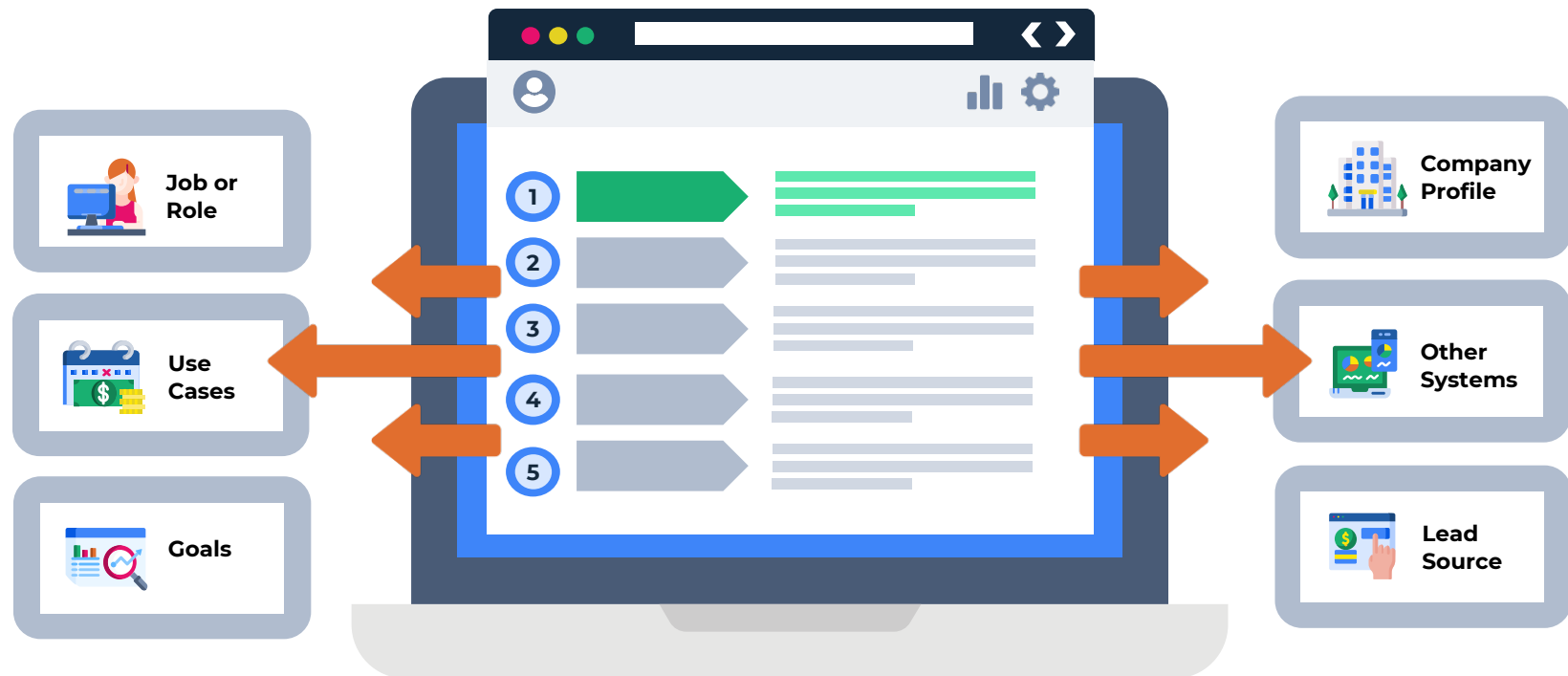
In the background, the SaaS provider configures the application to provide a more personalized experience. SaaS companies need to be selective about the number of questions to ask. Each additional question will result in a small percentage of users abandoning the on-boarding flow.

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Onboarding Examples

Asana

Asana asks users about their primary role and walks them through setting up their first project step-by-step. First, the user identifies the stages. Then, they select a layout (list, board, timeline). Finally, they invite their teammates.

Zapier

The integration workflow platform Zapier asks customers about their role in the organization, the size of their company, and the tech stack they are using.
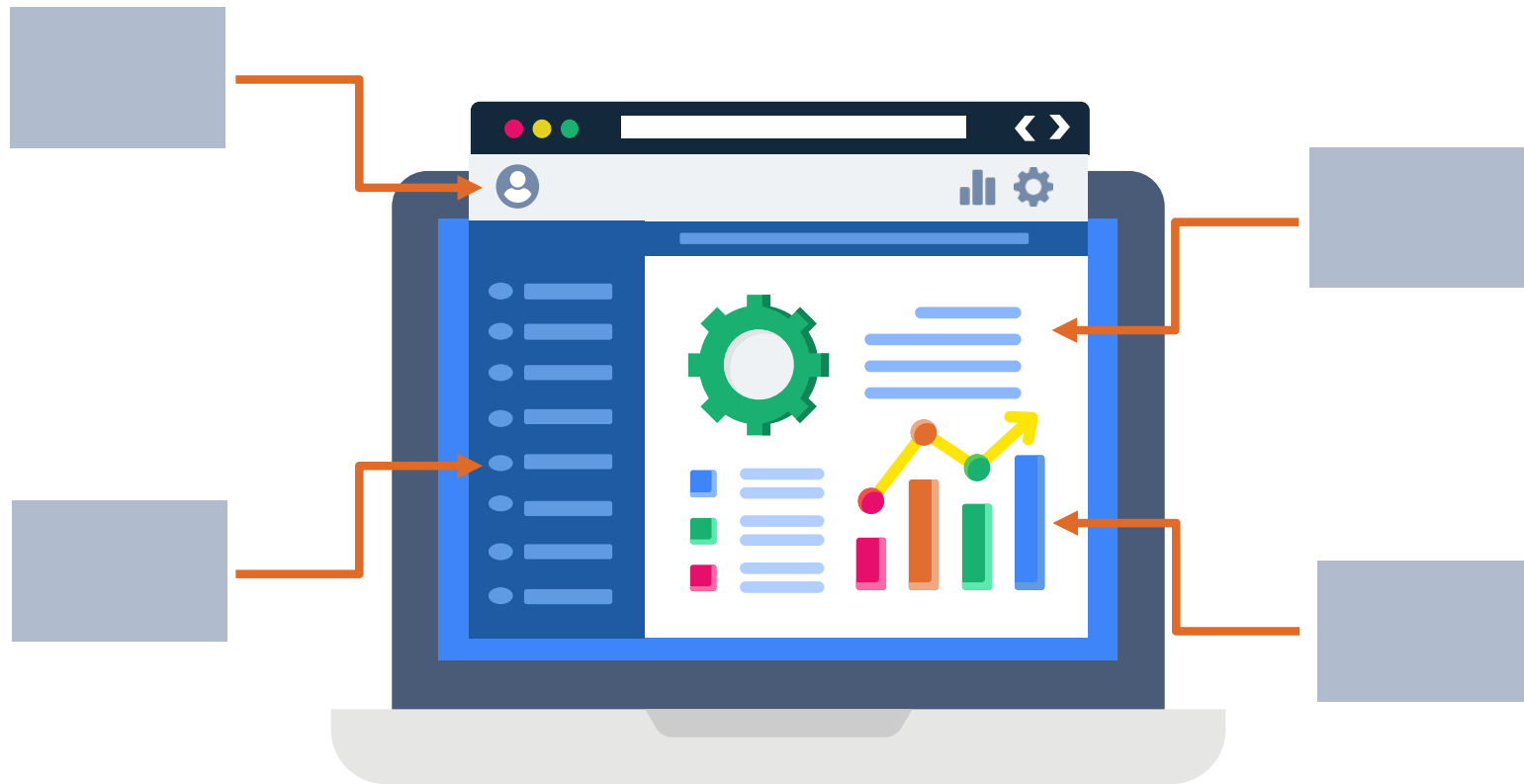
Fleetio

The fleet management application Fleetio asks customers whether their drivers use fuel cards, how they track vehicles with GPS, and where the assets have been serviced.
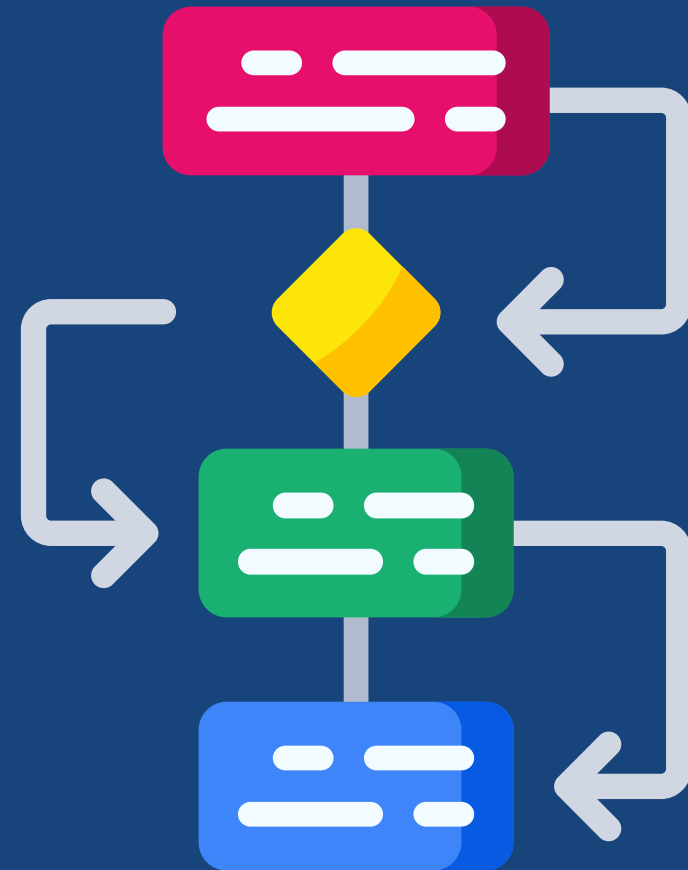
Product Tours

The final step in the guided on-boarding is to route the customer to the application's home screen.

Pop-up notifications appear to encourage the customer to take a product tour to understand how to navigate the app and how to "do your first <action>" on the platform.

# Product Tour Examples

Monday
When users land on Monday's home screen, they are encouraged to set up their first project. Users learn how to customize status labels, assign task owners, and break items into smaller parts. A progress bar shows how far they have gone in the tour.

Typeform
Typeform offers sample projects to help jumpstart popular tasks. For example, interactive tours show users how to create a lead generation form, develop a quiz to boost audience engagement and generate a survey to collect end-user feedback.

Figma
Figma offers templates for the most common types of projects like brainstorming, reviews, diagrams, and pitches. Users can click on a template to use as a launching point for a customer journey map or user interface design.
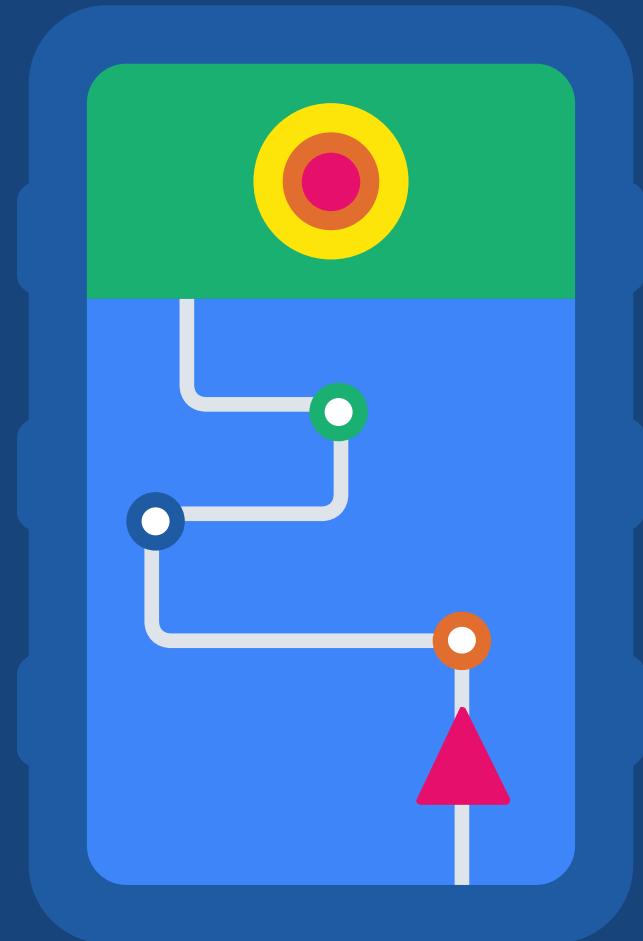
Critical Steps

The goal of the onboarding and tours is to obtain meaningful adoption.   Some free trials require the user to perform more technical, time-consuming steps like installing a browser plug-in, which effectively makes the customer more invested in the product with a higher level of "stickiness."

External Integrations

Desktop/ Mobile App

Browser Plug In

Tracking Code

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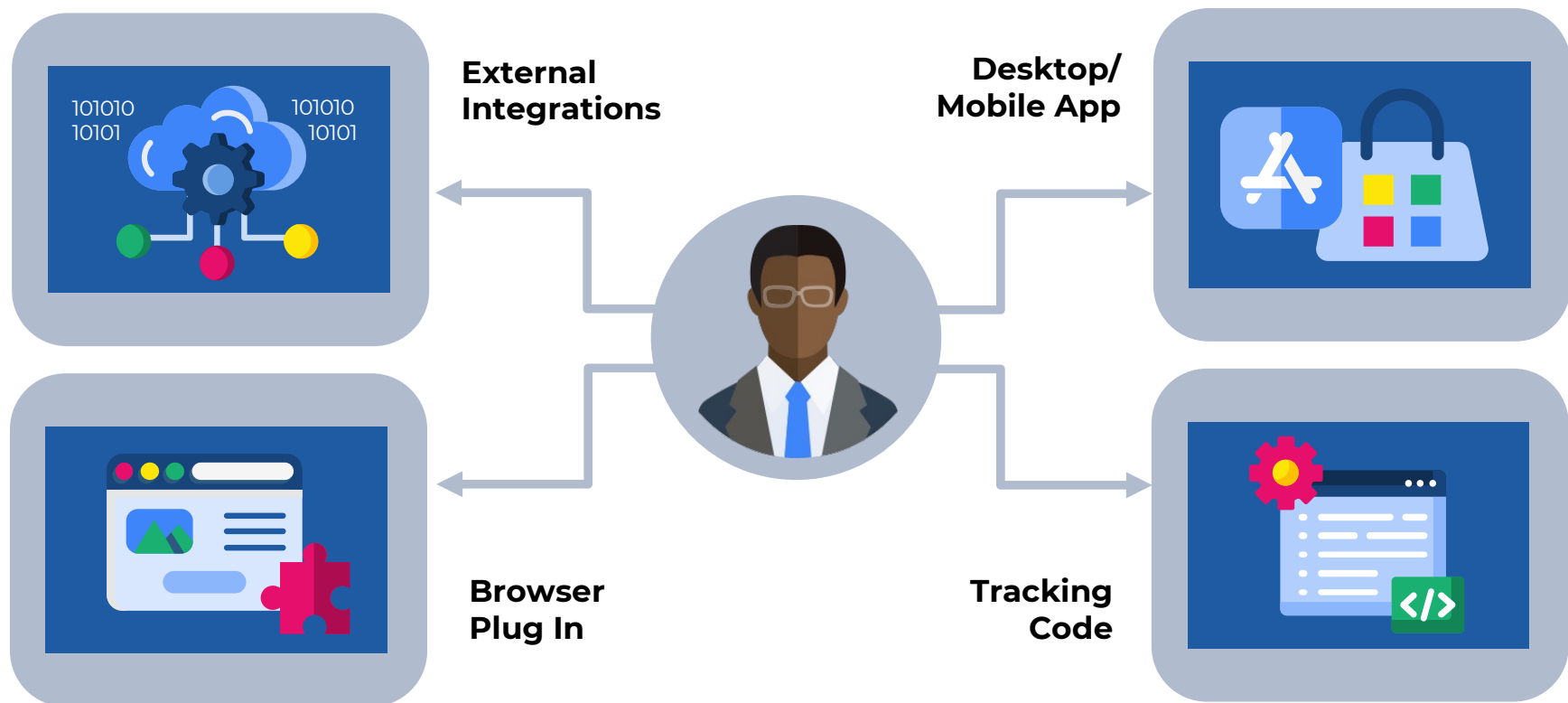
Critical Step Examples

External Integrations

Calendly, the calendar sharing app, starts its free trial by connecting to the user's calendar on Google or Microsoft. The integration is needed to offer the primary feature, which is enabling external users to schedule appointments.

Desktop or Mobile Apps

The video-sharing application Loom encourages customers to download the desktop version of their application. The desktop app enables users to capture a feed of their screen, microphone, camera, and internal audio for shared videos.

Browser Plug In

The sales automation application Apollo.io encourages users to install the company's Chrome browser plug-in during onboarding. The plug-in helps users quickly capture data from LinkedIn and other websites for prospecting activities within Apollo.

Tracking Code (Javascript)

The product experience application Pendo requires customers to install its tracking code within their software during onboarding. Once Javascript is active, Pendo can be used to perform analytics on user behaviors and replay actual session recordings.

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Product Adoption

During the free trial period, the SaaS provider needs to demonstrate enough value to convince the customer to upgrade to a paid plan. In a product-led growth model, most of the selling occurs without the involvement of a traditional sales rep. The product needs to sell itself. Critical to the success is getting the customer to use the product as much as possible. If the customer isn't experiencing the product, it is hard to understand the value.
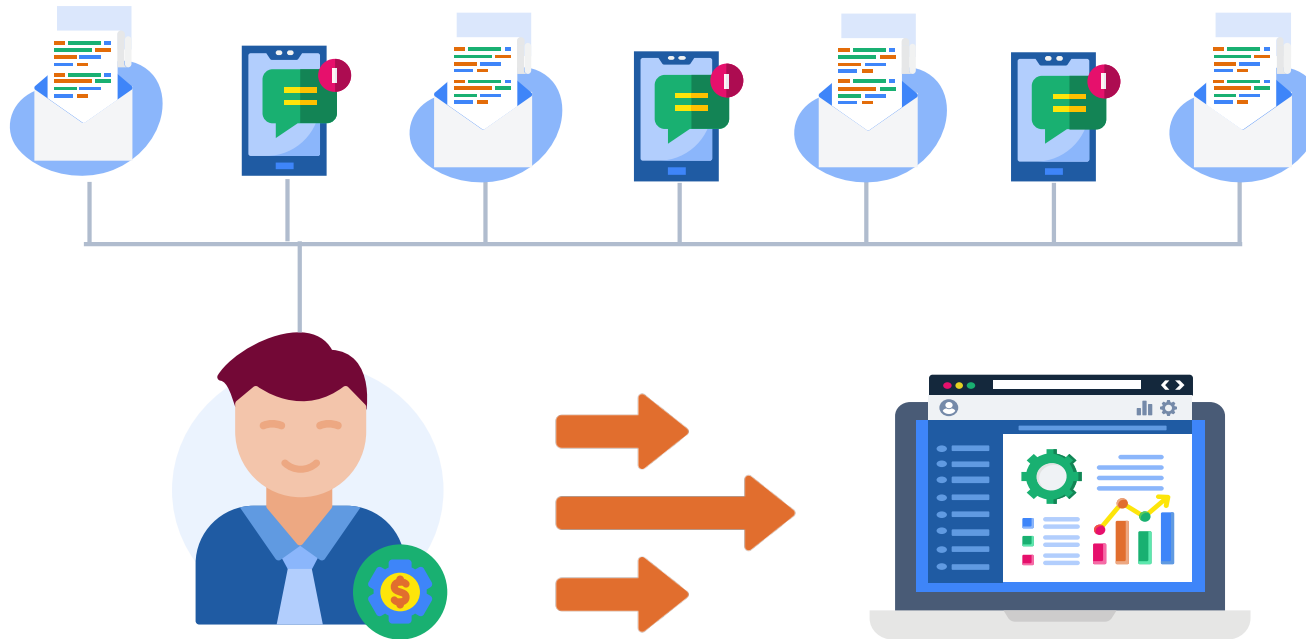
SaaS vendors use a variety of strategies to encourage customers to establish a regular usage pattern.

In-App Nurturing

Email Nurturing

During the product adoption phase, SaaS companies will configure nurturing flows within the application. Notifications pop up encouraging users to try new features they have not yet utilized. The nurturing typically is focused on gaining adoption for the high-value features that users find the most compelling.

The best adoption steps are the sticky ones, such as inviting team members, uploading data, or connecting to another internal system like the CRM.

Customers also receive emails throughout the trial period encouraging them to try out different functionality. The email sequences usually begin with a welcome message and a few links to training videos, support documentation, and the user community forum on Slack. If the customer abandons the onboarding process before completing setup, an email will encourage them to finish the remaining steps. The emails typically map closely to the calls to action in the product tour and setup wizard.

Trial Expiration Options

As the free trial ends, the customer must decide whether to upgrade to a paid plan or downgrade to a freemium plan. Depending on how the trial was structured, the customer may need to take action to opt-out or opt-in.
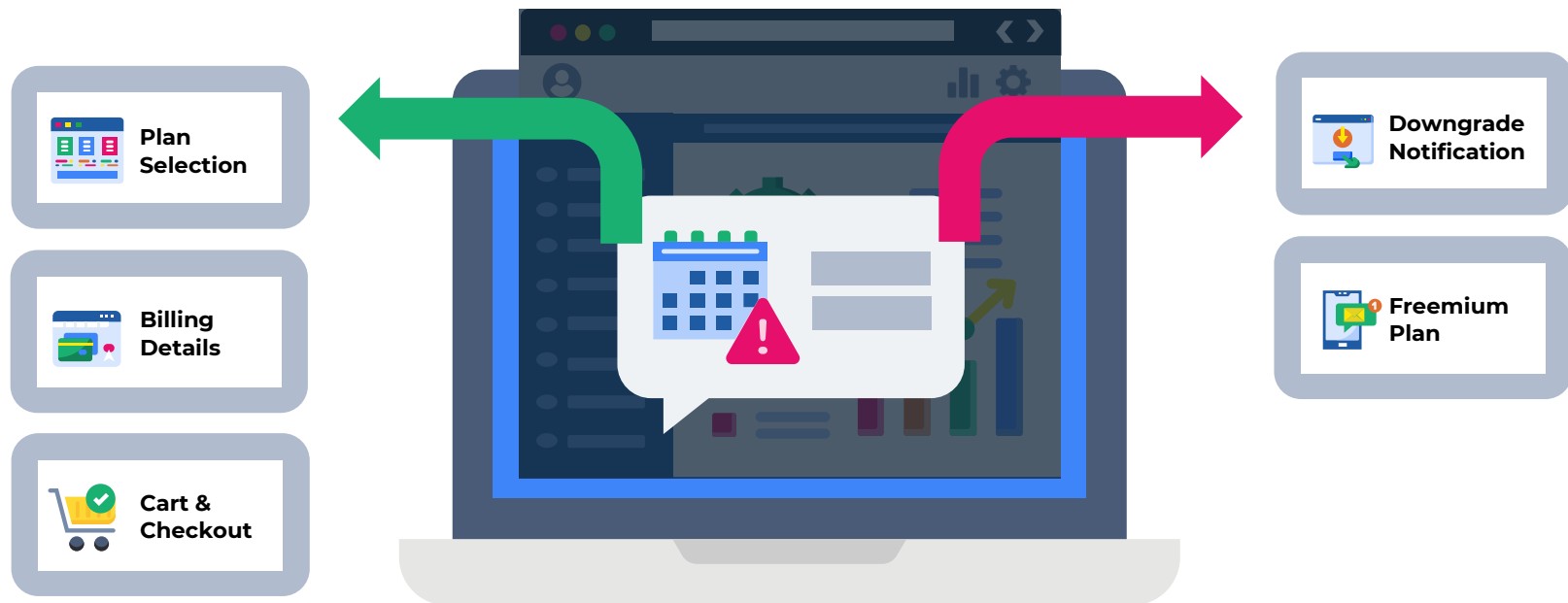
In the remainder of this guide, we will explore the customer journey for users choosing to upgrade to a paid plan. We will explore the process through the lens of an opt-in free trial in which payment details were not captured at the start.

Upgrade to Paid

The first step in the paid conversion journey is taking the customer to the pricing page. The customer can choose to move to an annual or monthly plan. They also have the option to change tiers. For example, the customer may have done a free trial on the "good" plan but be so thrilled with the value received that they want to upgrade to the "better" plan.
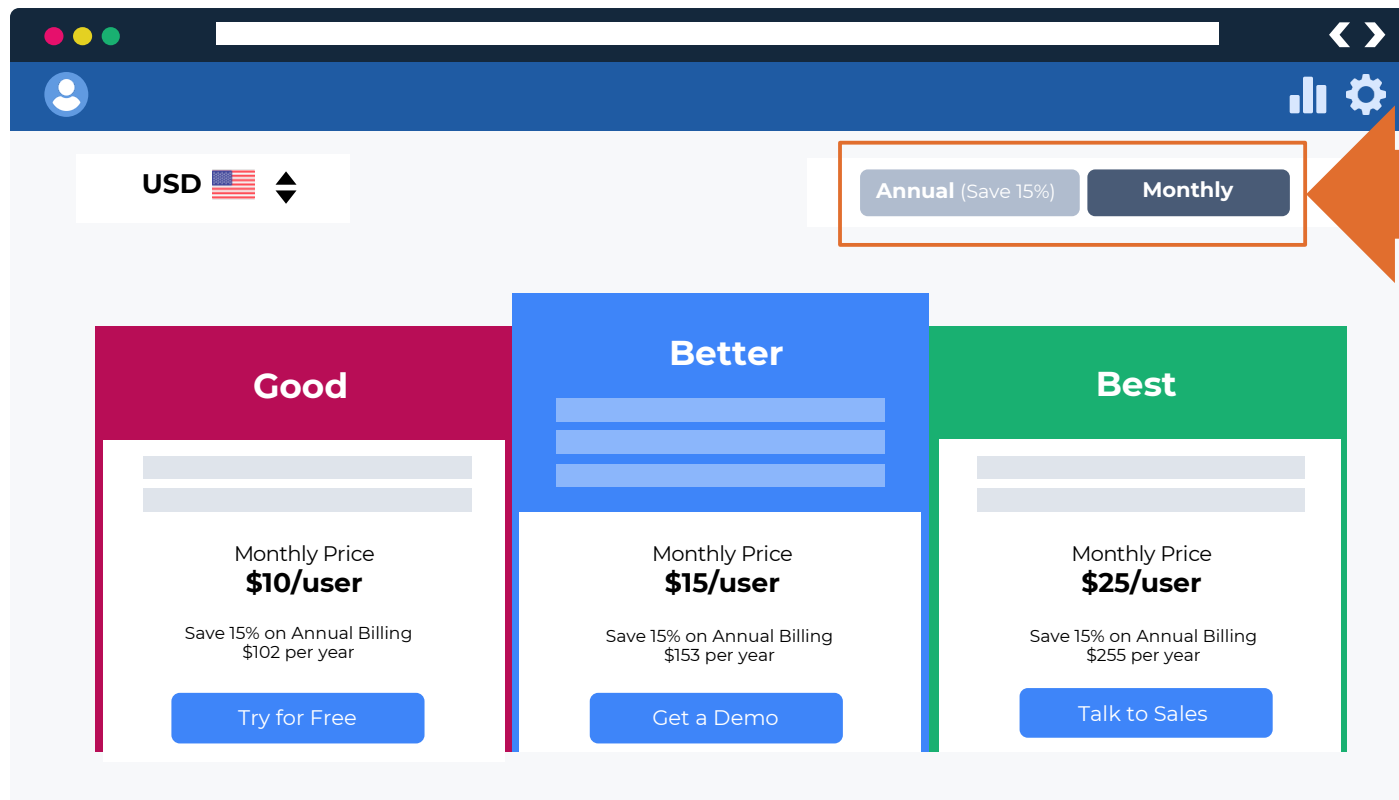
Subscription Length and Billing Frequency

A "monthly plan" for most SaaS companies refers to a pay-as-you-go plan that does not require more than a 30-day commitment. Monthly plans, effectively, auto-renew at the end of each billing cycle and can be canceled anytime. "Annual plans" do require a minimum of a 12-month commitment and typically auto-renews at the end of 12 months.
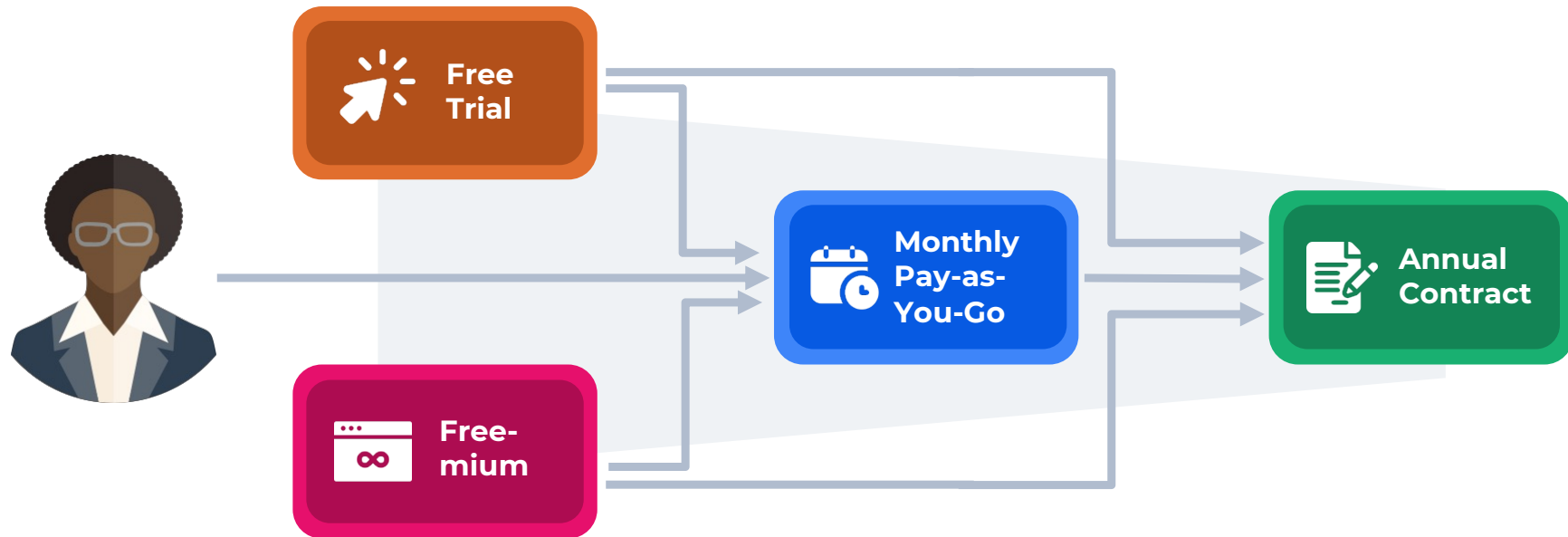
Most SaaS providers want customers to prepay for the full year in advance, although some offer other options.

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Annual Plans

In exchange for a full years' prepayment on an annual plan, most SaaS providers offer customers a discount of 15-20% of the monthly price.

A few SaaS providers offer annual plans without upfront payment. Instead, these customers are billed monthly using a model similar to pay-as-you-go plans. The big difference is that the customer is committed to paying for 12 months and does not have the flexibility to cancel at any time. The advantage of the annual plan with monthly billing is that it may better fit tight budget parameters. A small business may not want to prepay $2200 for a discounted annual plan but is comfortable paying $200 monthly.

Multi-Year Plans

Most SaaS companies offer multi-year plans with even more significant discounts than those available with a one-year commitment. However, these are not typically an option in the self-service checkout experience. Most multi-year contracts are reserved for sales-assisted purchases such as enterprise plans.

Questions to consider:

- Which plan should be the default option? Monthly, pay-as-you-go, or annual prepaid?

- Do you want to offer annual plans with monthly billing?

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Upsell Promotion

Most SaaS offerings are not priced solely on the product feature tier (e.g., "pro," "business," "enterprise"). There are often multiple pricing metrics. The most popular secondary pricing variables include user counts (or seats) and usage allowances (or credits).

Product Features	**User Count**	**Usage Limits**

Higher Tiers ← →   **More Seats** ← →   **More Credits** ← →
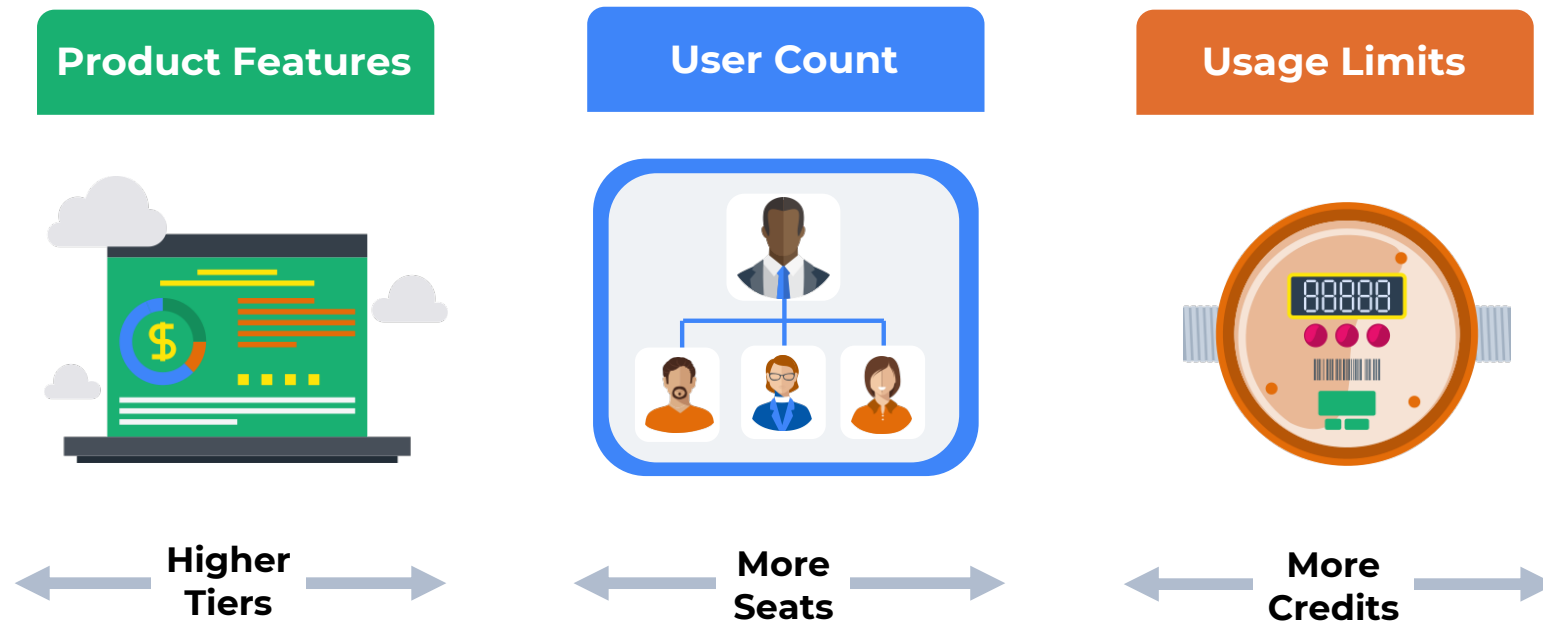
Some SaaS and cloud providers use all three variables when determining the monthly price.

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User(Seat)-Based Pricing

Secondary Pricing Metric

Pricing based on the number of users/seats is a popular model in the business applications, collaboration, and productivity sectors. In some cases, the pricing is tied to the total number of registered/named users. In other cases, it is a more dynamic user count, such as monthly active users or concurrent users.
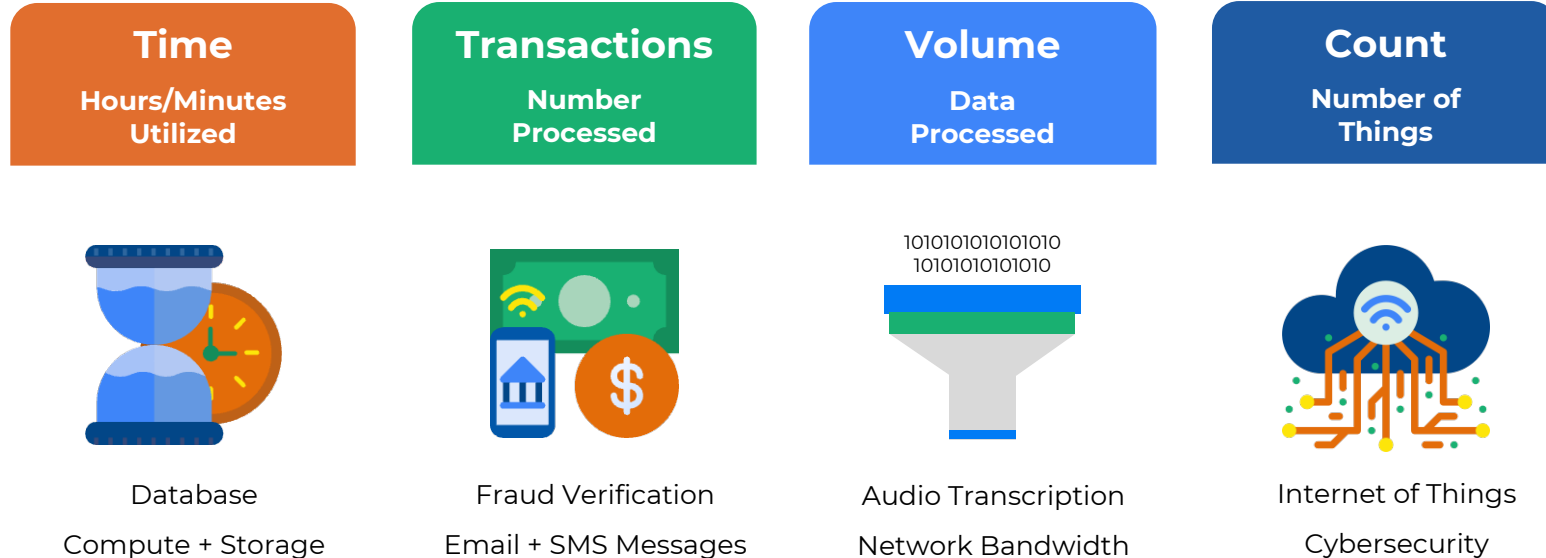

Examples of SaaS Products with User Pricing

- Google Workspace

- Microsoft 365

- Salesforce.com Sales Cloud

- Hubspot Sales Hub,

- Asana

- Monday.com

- Adobe Creative Cloud

- Zoom

- Slack

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Consumption-Based Pricing

Secondary Pricing Metric

For other products that are not as user-centric such as AI/ML, fintech, and infrastructure products (e.g., AWS, Azure), the pricing is often based on product feature tier as well as usage.

Time	Transactions	Volume	Count
Hours/Minutes Utilized	**Number Processed**	**Data Processed**	**Number of Things**

Database

Compute + Storage

Fraud Verification

Email + SMS Messages

Audio Transcription

Network Bandwidth

Internet of Things

Cybersecurity

There are lots of different usage-based pricing metrics. Fees might be based on transaction count (e.g. API calls), volume (e.g., GB data), or time (e.g., minutes).

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Increase Unit Quantity

In scenarios with a secondary pricing metric, the self-service checkout flow often asks the customer to select a unit quantity.

For example, a CRM application might default to a single-user plan in their pro, business, and enterprise packages. However, the customer may have a sales team of 10 individuals needing access, requiring them to add nine more users to the plan.

There are three strategies for including upsell options in the checkout flow:

1) **Separate Screen** - Add another screen in the checkout process that prompts customers to select a unit quantity.

2) **Pricing Page** - Provide the option to change the unit quantity on the pricing page.

3) **Shopping Cart** - Provide the option to change the unit quantity in the shopping cart.

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For usage-based pricing, some SaaS companies sell customers a package of "credits" that can be drawn upon as the product is consumed. In these models, the SaaS provider often includes a credit upgrade option in the self-service checkout flow.
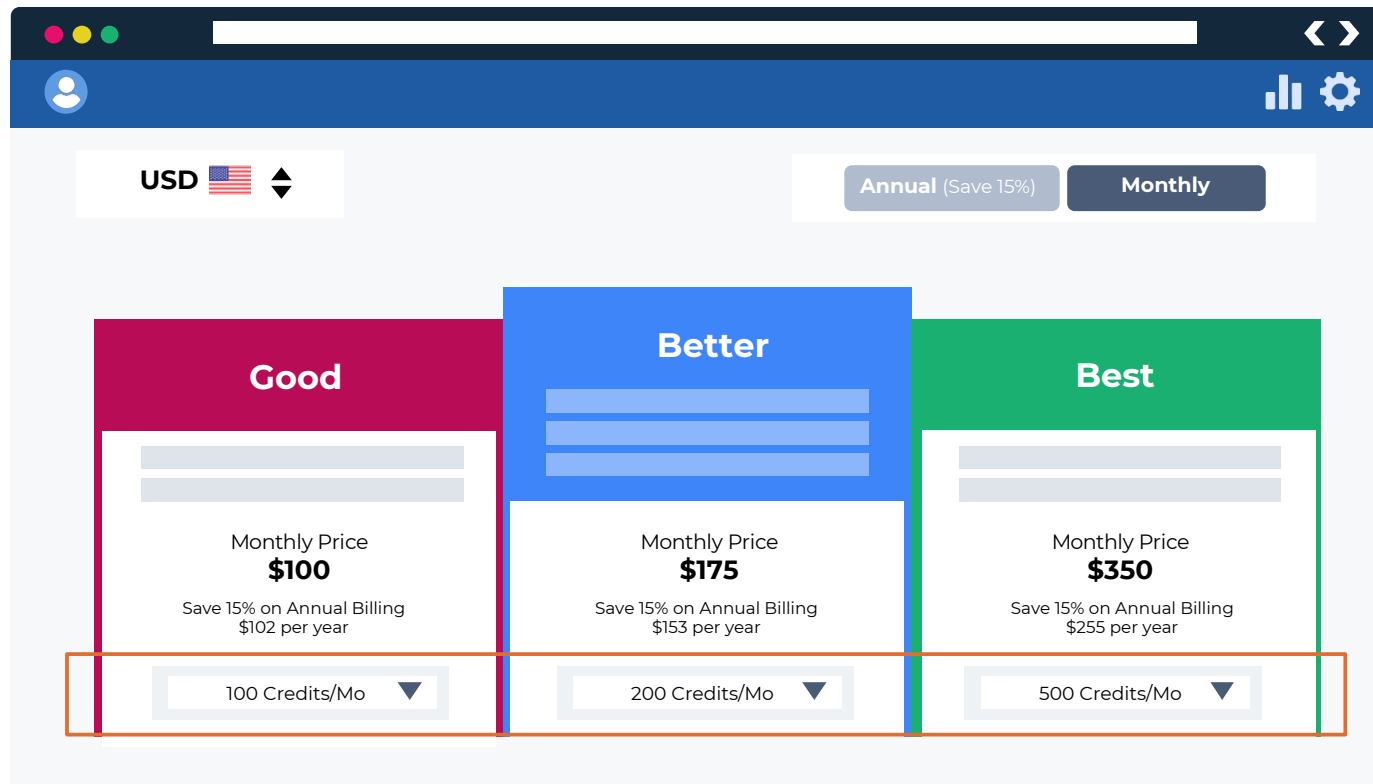
A cloud infrastructure service might include maximum data transfer in its good, better, and best plans (e.g., 100GB, 500GB, 1TB). However, some customers may want to use more data without upgrading their feature tier. For example, a small business on the "Pro" plan may wish to transfer 250GB of data without selecting the "Business" plan. They could purchase additional credits on the Pro plan to satisfy their needs.

Cross-Sell Promotion

Some SaaS companies try to cross-sell additional products and services to new customers during the initial checkout flow. These cross-sell efforts might be an alternative or in addition to upsell campaigns.

Incorporating a cross-sell motion into the checkout flow is challenging. There is little opportunity to explain the secondary product's features or benefits without introducing the risk of distracting the customer from purchasing the primary offering. To increase the probability of success, cross-sell campaigns must be designed around products with a highly intuitive value proposition.

Select Add-Ons

AI Copilot

Pro

AI

$50/mo

Business

AI

$100/mo

Examples

- Figma prompts customers buying its core design application to purchase the FigJam add-on at multiple steps during the checkout flow.

- Zapier adds another screen to its checkout flow that prompts customers to purchase additional products, such as tables, interfaces, and chatbots, on top of the core Zap integrations.

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Payment Method

Payment Options

The most important part of the checkout experience is capturing the payment method. This is needed for the initial charge at checkout and the ongoing recurring billing. SaaS providers vary in the payment methods they offer. Credit cards are the most common payment method, but some also offer the option to pay via a debit card, digital wallet, peer-to-peer network, or bank transfer.

Credit Cards

The most popular credit card networks are Visa and Mastercard, which are almost universal for every SaaS product. Other options include American Express, Diners Club, JCB, UnionPay, and Discover. Some card brands are more popular in certain regions than others. For example, Discover is popular in North America, and JCB is popular in Japan.
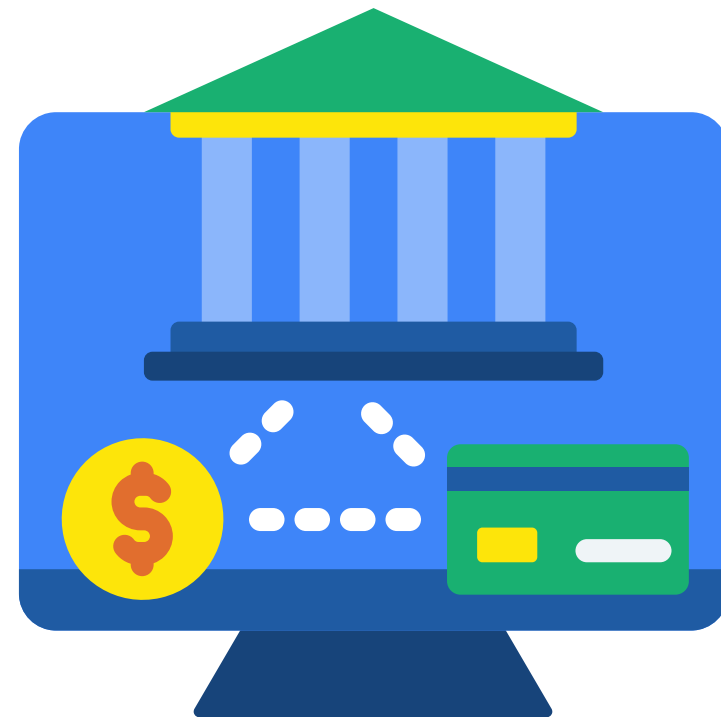
Digital Wallets

Offering more choices increases conversion rates and improves the customer experience. For example, Monday enables customers to pay with all the card networks listed above, plus PayPal. Digital wallets and peer-to-peer payment networks can simplify the checkout process by freeing customers from having to type in credit card numbers or bank routing numbers. Google Pay and Apple Pay are some of the most common options for B2B SaaS transactions.

Direct Debit ACH Transactions

Payment via bank transfer (e.g., ACH) is becoming increasingly popular as SaaS providers try to reduce their payment processing fees. Credit card payments cost 2-3% of the transaction value. Bank transfers are typically priced much lower as a flat fee (e.g., $0.30 per transaction) or a much smaller percentage (e.g., 0.5%).

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Final Checkout

Once the customer has reviewed their cart, entered their payment method, opted into recurring billing, and supplied any other information required by the SaaS provider, they are ready to checkout. The "Submit" button is clicked, and a few processes are set in motion behind the scenes.

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Credit Card Processing

Card payments will be processed in real time. The payment processor will route the request to the issuing bank. The bank that issued the card will confirm that the account is in good standing and that the credit limit has not been exceeded.
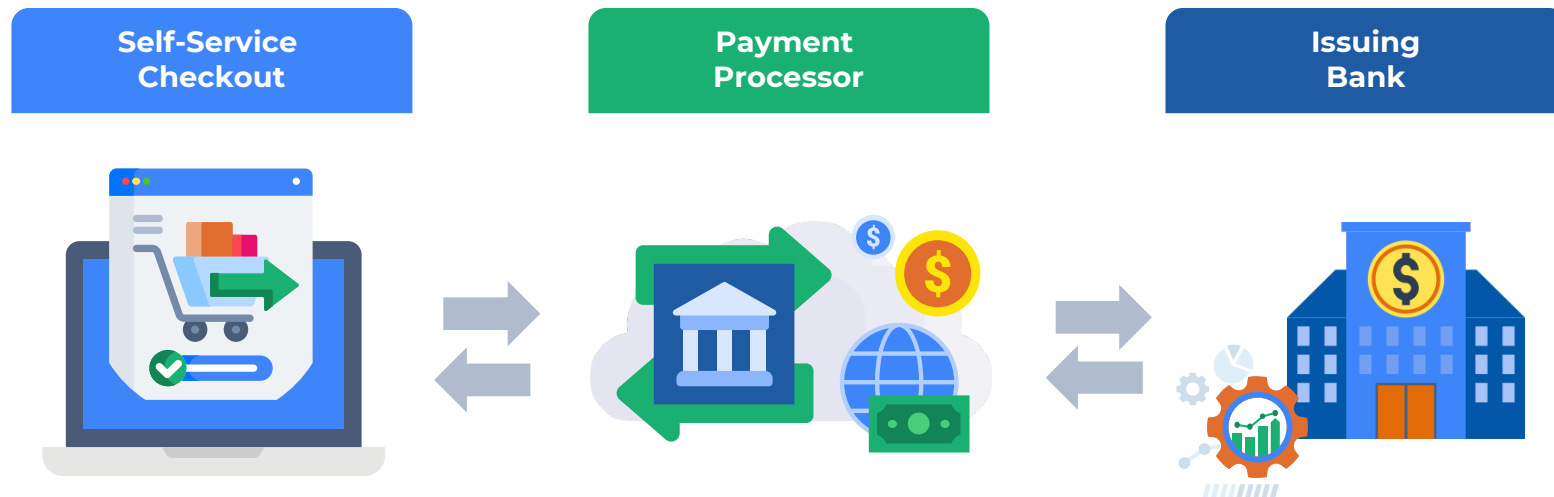
Many corporate cards have additional controls that limit the dollar value of a single transaction or the types of products that can be purchased on the card. The appropriate rules will be applied to the SaaS payment to ensure the transaction complies with the company's policies. The bank will also look for evidence of suspicious behavior that might indicate fraud. The process concludes with the bank returning to the payment gateway a message that the transaction was either approved or denied.

Automated Provisioning

Some SaaS products can be immediately activated upon receipt of a successful payment transaction. Behind the scenes, the checkout page will initiate a provisioning workflow to provision the customer's account based on the selected plan.
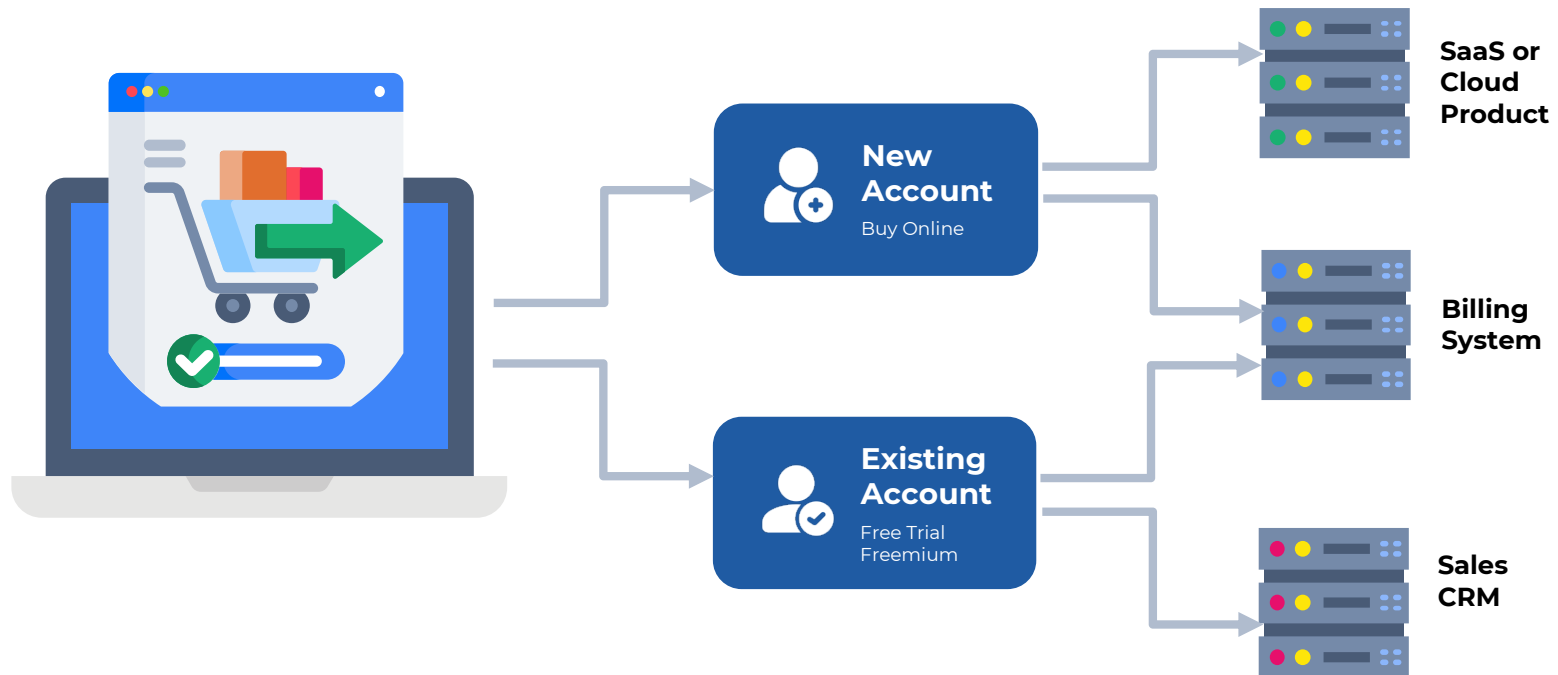
Optimizing Free Trial Conversions

Success with product-led growth requires optimizing all aspects of the new customer acquisition process. In each step of the customer journey there is a delicate balance between pushing the user to take the next step

- **User Registration** – Needs to be tight enough to satisfy security concerns but not so time-consuming that it scares customers away.

- **Onboarding** - Should be detailed enough to jumpstart adoption but not so long that it leads to users dropping off.

- **Contextual Help** – Needs to surface at the right time to reduce confusion but not so frequently that it annoys the user.

- **Nurture Emails** – Should be sent at the right frequency to encourage engagement, but not so frequently that customers view them as spam.

Of course, the most important part of the new customer acquisition process is the final step—the checkout. If the user doesn't submit a payment method and checkout, they don't become a paying customer!

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The Finance Platform for Innovative Business Models

Ordway is a billing and revenue automation platform that is specifically designed for today's innovative, technology-centric business models. With Ordway you can automate billing, revenue recognition, and investor KPI reporting for recurring revenue models based on subscriptions or usage-based pricing.

To learn more visit www.ordwaylabs.com.