

MB Jason Cohen

Jaime: Welcome to Eventual Millionaire Builders. I'm so excited to have Jason back on the show. He gave us an incredibly action packed interview before and now we can dig deeper. I really want to talk about raising prices more – so if you listened to the first interview you got a ton of information and now we're going to dig deeper on that. Thank you so much, Jason.

Jason: Sure.

Jaime: If you haven't listened to the last interview already, one of the things you were saying is 'Raise your prices'.

Jason: I had that at the end as the most important thing to do. Not only because it's revenue, which is obvious, but there are other, not immediately obvious, things that it does, besides accelerating when you can quit your day job and what you can reinvest back into the business. If you raise your prices you have to raise your game – you can't charge \$1000 a month and be crappy; you have to earn that. The way I like to think of it is you're four times more expensive and four hundred times better. You're more expensive and it's amazing; the experience is amazing, support is amazing, or the product is amazing. It doesn't have to be any one thing but you have to be amazing to justify that. It's so much better for you to do something that is, in fact, amazing and wonderful and customers agree and are willing to pay for it. That's a tremendous place to be in your life – not to mention financially healthy for the business.

Jaime: So what do you do first? Do you raise the quality, then raise the price? Or do you raise the price and then match it because you have the cash?

Jason: You've got to raise the price first. You're going to do them both at the same time and, of course, some of the amazingness will come, whether that's higher quality, certain features, whatever, that might come over time, but you're probably not charging enough anyway, because people buy on value, not on how much work it was to make the tool. They pay based on what they're getting out of it – how it's changing their life, how it's making them successful, and not based on how much effort it was for you to build the thing, acquire them or continue to support them. They don't think of it that way; that's how you think of it. So step one is to say 'Okay, let's suppose I was forced to double my price, triple it, ten times it.' It depends where you're starting from – if you're starting at \$1 a month, \$9 a month, you need to get way up to \$20, \$30, \$50 a month, for sure. The easy way to see why this is true is how many customers do you need to achieve this financial goal that you have? If it's \$1 million a year you need \$80,000 a month in revenue. If you're charging \$1 a month that means you'll need 80,000 customers. There are incredibly successful, venture backed companies that have been around for years and don't have 80,000 customers. That's impossible to do! That's such a ridiculous thing to set yourself up for, but with low prices that is what you have done – you've set yourself up to make it impossible to achieve those financial goals.

Jaime: You're making us all sad, Jason! So we're not going to do that – tell us what to do instead.

Jason: My latest company, WP Engine, got cash flow positive in seven months because our lowest price was \$50 a month and our average price was more like \$110 a month, so we only needed a couple hundred customers to be paying for three employees. A couple hundred customers is a little more accessible. It won't be easy – you've got to scrounge and scrape up a couple dozen, and with a couple of blog posts and some paid advertising you can get to a hundred – that's possible.

Jaime: I think one of the key distinctions is that your lowest price point is \$50 but all of your competitors are \$5. So you're not doing what everybody else is doing and you're still succeeding.

Jason: That's right. We need to justify that with service and technology and so forth. But it's better to justify it with service, technology and so forth and build a company that's worth building than to milk customers for money and not being able to afford to build something interesting because you can't do that on \$5 a month. The lower your prices are now, the more you need to raise them. You need to get them up into this range where it's a reasonable number of customers to get to \$10,000 per month per founder or to get to \$1 million a year or something like that. Pretend that you have no choice but to make your product \$50 a month – this is a mindset. 'I'm going to change the prices to \$50 a month next week.'

Jaime: Jason's going to come and whip you!

Jason: Well you're hosted with us so I'm just going to go ahead and do it.

Jaime: That's a new feature of WP Engine!

Jason: 'I'm going to make it \$50 a month next month. There's nothing you can do about it.' What are you going to do? Because you have to justify this, so what do you do? This is the right mindset. Go and do that thing to justify \$50 a month. Go and do it.

Jaime: How can we do that? Especially when you're in it – because you talk about how much time it takes for you to create and you think nobody will pay for it, plus you want it to be really good value. I remember interviewing Andrew Warner – he has a membership site and he started charging \$25 a month. That's a no-brainer – I don't even use it anymore and I still keep paying him \$25 a month. He could raise it more but it's really good value so it's a no-brainer. So are we trying to make it no-brainers for people or are we trying to make it really high quality so that people have to decide if it's a good fit for them?

Jason: Andrew's situation probably doesn't apply to most people watching this, or even me. He has a massive audience already and he wants to monetize in this easy way. It's not hard for him to get 1000 people. For people watching this, it's hard. If it's easy to do 1000 then you do the math to maximize the product – number of people times cost, and most people won't even use it, so that's easy. That's not the

situation most people are in building a company from scratch – they don't have that kind of audience to begin with. He also has the luxury of being independently wealthy and being able to do whatever he wants, which is what he's doing, so it's just not a good analogy for a lot of companies.

Jaime: Good. Because a lot of people hear that and think they should just do what Andrew Warner does and it doesn't necessarily work because it takes a lot of \$25 a month to be sustainable.

Jason: A ton. How much can you charge? And it had better be above \$20 a month. I'd like to see closer to \$50 and beyond that. \$20 or \$50 needs to be the lowest tier – and then there's the \$100 a month tier and the \$200 a month tier or whatever, you can do any kind of tiers and in fact you should play with that.

Jaime: Do you always recommend tiers?

Jason: For recurring revenue stuff you'll notice that everyone has tiers and there are reasons – there's pricing psychology around how tiers work. No matter what the tiers are, people like to pick the middle tier, so it's an easy way to do it. If you haven't interviewed Erica Douglas yet, you should.

Jaime: She's in my mastermind group, I adore her.

Jason: One of the great things she did for me at WP Engine was she said 'Make your highest paid tier called business,' because then people who have businesses think 'I need the business one' and they get the most expensive one. It absolutely works.

Jaime: Really?

Jason: Yeah, so call the highest tier 'business'. It's a very simple tip, it works. Having tiers allows people to sift themselves out. There are always customers who will just buy the most expensive thing, even if they don't need all the stuff, because the amount of money they can spend on it is not important to them either because they're rich or because they're spending someone else's money, i.e. someone at a company who couldn't care less as long as it's below the rate that they're allowed to spend without asking permission, so as long as it's below that they might as well get all the stuff, so you need a way for people to get that. So you have a higher tier that's like 'I can't even understand why people would do that,' but don't tell them! That helps average it out, because the important thing is the average revenue per customer. For scale, like what we're doing at WP Engine, we break out those customer segments and do different things with those segments, but that's because we have dozens of people per segment signing up every day so we have there wherewithal to be that specific. The point is that, by having these different tiers, the average will be above the lowest tier, mathematically, and that gets you into a better place, financially. The other thing that you can do with raising prices is that there's a positive feedback loop, and that's not necessarily obvious right off the bat. If your prices are much, much higher, you can afford to pay more to attract each customer. If it's only \$9 a month, you can't spend \$200 to get a customer – you'll never get that money back, it'll take too long. But if it's \$50 a month you can spend

\$200 to get a customer – you’ll get that back in four months. And if you have annual prepaids, which you have to do.

Jaime: Another step – annual prepaids.

Jason: Not optional. You must provide annual prepaids with some amount of months free – one month free, two months free.

Jaime: I did that with WP Engine, by the way – I’m an annual member.

Jason: That means you gave me 10 months’ worth of cash immediately. In exchange, I gave you 12 months’ worth of service. In any business whatsoever, but especially in a small business where cash flow is king, listen to what I just said – you gave me 10 months of cash today, which I can put back into my company today, to go and acquire more customers or whatever I’m going to do. That is transformational. It can increase the cash flow of the business three to five times. It’s unbelievably transformational – you have to do it. And the customers are thrilled because they get a deal.

Jaime: I’m excited! I’m going to buy it anyway; I might as well save some money.

Jason: That’s right. This isn’t a trick – they’re getting a deal, they’re paying less overall, and you’re getting cash flow which you desperately need – you need cash flow more than you need the total money. Going back to the first point, though, you can now afford to spend \$200 to acquire a customer if it’s \$50 a month because you’ll make it back in four months, which is a reasonable payback period, and some of them do annual anyway, which from a cash flow perspective pays back that \$200 immediately and lets you acquire another customer immediately. So between the two of those things it’s just unreal. So you have to do an annual prepay with a discount – you make that up, it doesn’t matter, play with it – and by raising prices it opens up avenues for acquiring customers you couldn’t do before. Those AdWords that were \$1 per click and you thought you couldn’t do that, all of a sudden you’re thinking ‘If it’s \$1 per click and it’s 1% conversion,’ which isn’t that hard to do, a 1% conversion on a target group, that would be \$100 to acquire a customer, at \$1 a click. ‘Oh my God, I could totally do that! I just found a whole new channel of acquiring customers that totally works!’ That’s an example. All these channels of advertising, affiliates, whatever, open up because you can afford to spend real money to get the customer and that means you can go and get those customers at that rate. Whereas at lower rates you literally can’t do it.

Jaime: And you start to tank because you can’t even sustain it. This is perfect.

Jason: Then the only way to get clients is crap like SEO and maybe guest posts and all this shit that is actually really hard and costs a lot of time and money to do and you totally can’t control it, Google changes all the time, it’s terrible.

Jaime: Tell us a little more about that – because I think people want the free methods to grow their company, therefore they think guest posting and SEO and all that stuff is the way to go. But you don’t like that.

Jason: First of all, they're not free – it takes a lot of time to write a guest post and to get those posted and free is the last thing I would call SEO. You're not writing a check but you're spending your time, which is much more expensive than writing a check. They're not free and you're at the whim of Google and other things – it's not in your power. So even if you did build something of a business and quit your day job, you don't know what the next Google change will mean.

Jaime: So many people tank from that and if that's their number one thing that sucks.

Jason: Your attitude has to be that growth is something that you're in control of. Which is weird, because it's the last thing you're in control of, it's whether people find you and stick, but actually that is what it takes to have a successful company, is to be in control of that. You're never 100% in control, but your attitude has to be 'How do I get in control of that?' When you have paid advertising channels that are boring, like AdWords and Facebook and affiliates, all of this paid stuff, it's not exciting, but that's how you get control, because then you know you can spend \$5000 on AdWords this month and get \$1000 every month from that from now on. That's how you get your arms around a controllable way to continue growing the company. Again, your avenues, your options for that, are almost nil if you have a small amount of money per customer. You can't afford to do any of those, so how do you build your company? I don't know – you'd better be lucky and find some inexpensive way to do it that stays inexpensive over time. That's even worse, because usually these things collapse. Good AdWord niches go up in price over time, not down, so the higher the prices, the more you can pay and therefore the amount you can flog out of one channel and the number of channels and the variety of channels all go up and that is power. Then you can find one of those ten channels that does work for you and pour money into that. That is incredible power and none of that is possible if you have low prices.

Jaime: Perfect! I absolutely love this. I want to ask one question before we end this – what's your best paid strategy? Which ones are working well for you guys? I know it depends on the niche and stuff like that, but we hear AdWords, Facebook, Bing, all of this paid stuff, and I was just wondering what works best for you.

Jason: You can't go by that. AdWords worked really well for a long time and, all of a sudden, it went from about \$2–3 per click to \$14–20 per click and then it didn't work. It changes by time, by niche, by company – there just really is not an answer to that. You have to go in and test. We hate to hear that – you'll notice that I haven't said 'experiment' once in all of these interviews, because I hate that answer.

Jaime: I get that answer a lot.

Jason: Except when it comes to stuff like paid advertising, and that's been true since the lean startup movement has made that mantra 'try it and kneejerk.' Even before that was true, it was still true.

Jaime: That is a constant, it has never changed!

Jason: AdWords is a great example – it works, then it doesn't, then you unlock a new set of keywords and messaging, but then someone else figures that out. It's its nature. So is the tool itself – that's what Google is doing, is checking and guessing on the ad itself. It's its nature.

Jaime: It's an immutable law.

Jason: So, unfortunately, that is in fact the answer on that. By the way, also, things that we controlled at WP Engine failed and then didn't fail. So, for example, we launched our affiliate program and it didn't work at all, it was terrible – barely any action, no good return on the time we invested into it and so on, so we gave up. A year later we tried again with someone who is much better at affiliates and it worked out. That, again, is a common refrain. So even something like affiliates which is not a 'guess and check' situation can still be a case of you try it and it doesn't work but try it again with a different mindset, a different offer, a new insight into how you're going to do it, and it might work.

Jaime: So it wasn't a total failure. It's interesting to know that you came back a year later and it worked. So you can't just throw things under the rug and say they're never going to work.

Jason: It may not work – I have this sense that Facebook ads will never, ever, ever work for us, but if we want to try it again I'm fine with that. At the same time I'm totally open-minded. I always thought the affiliate program ought to work – other companies do affiliate programs.

Jaime: It should! I've told everybody about WP Engine, come on! I should be getting affiliate commission for this. I might throw in an affiliate link below!

Jason: Other hosting companies are successful with it and other Wordpress product companies like theme companies and plugin companies are successful with it, so it just stands to reason that we should be successful with it. So when we failed it was like 'We failed. We should try it again unless we have a reason why something would be different next time. But we should try again because everyone else is doing this.' So it stands to reason that it should be doable even though we didn't succeed at first. So at the end of the day there isn't an easy answer other than to set yourself up so that there are all these potential channels of doing it. For us, we can even make a bunch of money at trade shows because of offers we can do during the trade show. I know other companies that do that but most companies don't think of it that way – they think of it as throwing some money for some branding, which is fine if that's valuable to you, to get the word out, that's fine. But you can also go in with the mindset of making sales, depending on the product, of course. That works out for us.

Jaime: So you never know.

Jason: You never know.

Jaime: Thank you so much for this. I'm going to go ahead and put all this into an action guide – step by step to raise your prices. You'd better do it this week or Jason will come after you, or I will.

Jason: Can I tell you one more story about raising prices?

Jaime: Please.

Jason: In the previous interview you can hear one of the stories about monthlies and annuals that's a bunch of fun. Here's another funny one – so I told a startup guy that he had to raise his prices. I think it was \$19 a month and I said to make it \$39 a month – double it. So he hemmed and hawed and then he did it. I said 'What happened to the site?' because even if it halved, that's the same amount of revenue but more profit. That's still okay. Of course the signup rate didn't change at all – he just made more money. I said 'Okay. What are you going to do next?' and he said 'Now that I've got all of this extra money I'm going to spend more money on AdWords and stuff like that and grow this thing.'

Jaime: Uh oh!

Jason: No! You double it again! You just said you doubled it and nothing happened! Or, if you don't want to double it again, add another \$20. It doesn't have to be double again, but raise it again. Raise it until the signup rate starts wavering or different things appear that are nasty. Be careful but keep pushing! Raise the damn prices!

Jaime: It worked once, it will work again! How do you know when it's too much, though? Because if you start raising them either you give a lot of refunds or you get a lot of people saying it's too much.

Jason: Well, first of all, you're grandfather – you don't want to be bad to your customers. Raising prices for new customers does not mean being bad to your old customers. There are ways of raising your prices for old customers that I think are acceptable – I think you need to really explain why you are doing this. You may not raise it all the way, depending on how big the price rise is. You may explain 'Look, I'm one person, or we're three people, trying to make the dream happen and we were simply wrong that we could do it on that so this is for the company. We're not rolling around on the beach doing nothing – we are starving and trying to make this happen because we really want to make a company that's going to last and have great service and continue developing this tool. There are right ways of doing that to your customer base if you need to. It's fine. It's also fine to just grandfather and say 'Look, I have 37 customers or 137. I'm going to have 1000. I'm just going to look forward to the next 1000 and, by the way, thanks, existing customers, for putting up with all my weird crap, and as a thank you, don't worry about changing your prices.'

Jaime: But that also helps them because they'll want to stick around because they don't want to let go of the cool price they got, right?

Jason: That's true. If you're just honest and human and talk about it then almost everyone understands it. If they don't, they're probably not a great customer for you anyway. So you just raise it and you know it's too much if it's deteriorating, so of course you want to look for deterioration, so what does that mean? It could be that the signup rate slows and, again, if it just slows a little but the net is still higher, that's actually better because your profit margin is better. That's better. If the signup rate goes down so much that you're actually losing total money then that's too far the other way and you've got to go back. So that's one way, watching the signup rate as its own rate, its own number, to see if that's flagging against the prices you're raising. The second thing is the nature of the customers – you start getting different questions because you start to attract different kinds of customers. They may be more business and less personal or different kinds of business. You then have to decide what that means for your business and you and are you okay with that, and if your dream is to serve SMBs and not server enterprise you may not like that shift once you run into it and then decide not to do that, and that's great. I think you have to be true to what you're trying to do here. This is your life – not just your money, your life, so that's fair. On the other hand you might think that actually serving bigger businesses is easier in lots of ways so you're okay with your business transforming in that manner and if you are selling to Adobe and Qualcomm and those people, you can raise your prices even more. That's exactly what happened to me at Smart Bear and my customers ended up being all of these huge software companies, paying huge amounts of money, and it was a blast because we were also doing incredible things – our code was used in the making of PDF reader and all the stuff in the cellphones that Qualcomm puts code into and stuff with Cisco – really neat stuff.

Jaime: From \$19 to \$1300, too – that's a ridiculous jump!

Jason: But it can be equally valid to say 'Look, I don't want to deal with that – I left corporate America, I don't want to go back and be their slave.' That's equally valid. It's a personal choice, but know what to look out for. The nature of the customer, which you can detect by their actual identities, but you can also often see it in the nature of the presales and support questions you get. Like all of sudden they'll start asking for stuff like 'I need Rollbase things where certain people can see this and that person can see this and not do this,' okay – you've just gotten a bigger company where they have all of these controls and processes that no one else thinks about. Again, you have to decide if you're okay with the customer and the product going the way of bigger corporations or is that against the nature of the product and service that you want to provide, if the whole point is to keep it simple. If that's important, then you'll know your prices are too high and you'll want to back it down. So the nature of the customers and the signup rate is a very direct metric.

Jaime: Thank you so much. This week – everybody raise their prices and if it works, raise them again!

Jason: And annuals!

Jaime: And annuals! Which I'm going to do because it totally worked on me and I didn't even realize. Okay, thank you so much, Jason, for coming on. I really appreciate this, you've been awesome.

Jason: Thanks and thanks for having me!