

Waived Fee

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Key takeaways

- Offer a one-time startup/onboarding fee as part of the month-to-month option, typically 3–5× the monthly rate.
- Waive that fee if the customer commits to a longer term (minimum 6 months, ideally 12+); if they cancel inside the committed term they must pay the fee.
- Presenting the fee as a real price on the front end makes it a strong sales lever: customers often choose the committed option to avoid the fee.
- Customers can elect to pay the big fee up front and keep full month-to-month flexibility, or commit to a term to have the fee waived.
- The fee functions primarily as a cancellation term: it reduces churn because leaving costs more than staying during the commitment period.
- After several months (around 4–6), a customer who paid the upfront fee has effectively paid the same as someone who stayed, which helps get them through initial volatility.
- Four key variables to decide: commitment length, commitment monthly rate, month-to-month rate, and the fee amount to waive.
- A recommended model: $\text{fee} = \text{monthly price} \times 5$ (e.g., \$1,000/mo → \$5,000 fee) as a practical default.
- Justify the fee by explaining onboarding/setup takes more resources and is a one-time cost to give customers a better experience; waive it if they commit so it's fair.
- If you present the waived fee as a benefit (avoiding a large onboarding cost) it increases signups and retention.

Checklist

1. Define your core monthly product and rates
 - Determine your standard month-to-month monthly rate and an optional committed monthly rate (can be the same or discounted).
 - Why: You need the monthly baseline to calculate the onboarding fee and to show the savings/penalty dynamics between options.
2. Set the onboarding/startup fee
 - Set a one-time fee equal to roughly 3–5× the monthly rate; recommended default = $\text{monthly price} \times 5$.
 - Why: Makes the cancellation penalty meaningful and provides revenue/risk protection for month-to-month customers.
3. Choose commitment length

- Require a minimum of 6 months, ideally 12 months or more for the waived-fee commitment option.
- Why: Shorter terms don't create sufficient incentive to stay; 12+ months aligns incentives and helps customers get past initial volatility.

4. Define cancellation terms clearly

- If a customer commits and cancels inside the term, require payment of the full onboarding fee as though they had chosen the month-to-month path.
- Why: This enforces the "cost to quit" > "cost to stay" effect that reduces churn and makes the waiver meaningful.

5. Offer the two explicit options at sale

- Option A (month-to-month): pay the one-time onboarding fee up front + first month, then cancel anytime. Option B (commit): waive the onboarding fee if they commit to the defined term and pay monthly; if they break it early they must pay the waived fee.
- Why: Presenting both options transparently lets customers choose risk profile and makes the waiver a clear incentive to commit.

6. Decide whether month-to-month rate differs

- Optionally set a higher month-to-month rate and let early cancelers pay the difference in savings accrued by the committed rate up to the cancellation date.
- Why: This creates a graduated penalty tied to savings and can be used instead of a single flat fee if preferred.

7. Communicate onboarding justification

- Provide a clear rationale: onboarding/setup/activation requires extra resources, so a one-time fee funds that work and is not charged again.
- Why: A plausible, customer-facing justification reduces resistance and frames the fee as delivering value.

8. Calculate break-even timing for fee payers

- Determine the month when someone who paid the fee has effectively paid the same as a committer (often around 4–6 months).
- Why: Use this to explain fairness — after that point there's no monetary reason to leave, which supports retention messaging.

9. Build contract language and initialing

- Add contract language where customers initial that they understand the onboarding fee and the condition that breaking a commitment triggers the fee.
- Why: Clear contractual terms prevent disputes and make the cancellation policy enforceable.

10. Monitor and iterate variables

- Track churn and cancellations; adjust commitment length, monthly rates, and fee multiplier as needed.
- Why: The four variables (commitment length, commitment rate, month-to-month rate, fee) interact; real-world data will show optimal settings.

Examples:

- Example baseline: \$1,000/month; \$5,000 onboarding fee (fee = $\times 5$).
- Way fee with commitment (favorite): Option A — pay \$5,000 one-time + \$1,000 first month, then \$1,000/mo, cancel anytime. Option B — commit 12 months, pay \$1,000/mo, \$5,000 fee waived unless you break the commitment early.

Notes:

- Minimum commitment should be 6 months; 12+ months is ideal for the fee-waiver structure to make sense.
- Presenting the fee as a front-end price makes it a stronger sales lever and also a practical cancellation term.
- The fee can be framed using any onboarding-related word (onboarding, activation, setup, enrollment, initiation, etc.) to justify it to customers.