Your Price is Wrong

How to price your products for maximum return

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How much do you pay for a coffee?

Tall   **Grande**   **Venti**   **Trenta**

single origins *locally roasted @ zeal + buddy brew*

HAND-BREWED BY POUR OVER, CHEMEX, AEROPRESS OR FRENCH PRESS

ethiopia sidamo guji – *blueberry, jasmine, lemon zest* –zeal

honduras marcala– *dark chocolate, black licorice, organic* –zeal

congo lake kivu– *yellow cherry, honey, organic* =buddy b.

brazil cerrado– *toffee, dark chocolate, nutmeg* –zeal

sumatra adsenia – *organic dark roast! chocolate* –buddy b.

decaf peru– *water-processed, smooth w/ rich body* –zeal

guatemala zacapa– *plum, black cherry, cracked pepper* –zeal

ethiopia yirgacheffe– *bart orange, chocolate* –mountaineer

How much do you pay for a coffee?

How to price your products for maximum return

Cognitive Psychology
Computer Science

Product Management

Marketing

Development

Customer Service

Manufacturing

Design

Quality Assurance

Strategy

CEO

Startups
Bootstrapped
Venture-funded
SMB
Fortune 500

Advisor

Investor

Director

Chair

B2B Products & Services
B2C Products & Services

Brick & mortar retail
Personal computing
Enterprise software
SaaS / Cloud computing
Industrial technology
Software development
UI / UX
Information architecture
Input / output devices
Mobile devices
Corporate strategy
Corporate partnerships
Marketing automation
Online marketplaces
Pricing strategy
Consulting services

Databases
Personal productivity
Business intelligence
E-commerce
Financial services
Social networking
Education
Knowledge Management
Home Grocery Shopping
Online security
Real estate software
Video software
Value Added Reselling
Process Control
Non profits
Publishing

MARKET**FIT**

Strategic Services for Measurable Growth

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Advisory Services

Corporate Strategy

Product / Marketing Strategy

Business Coaching

Consulting Services

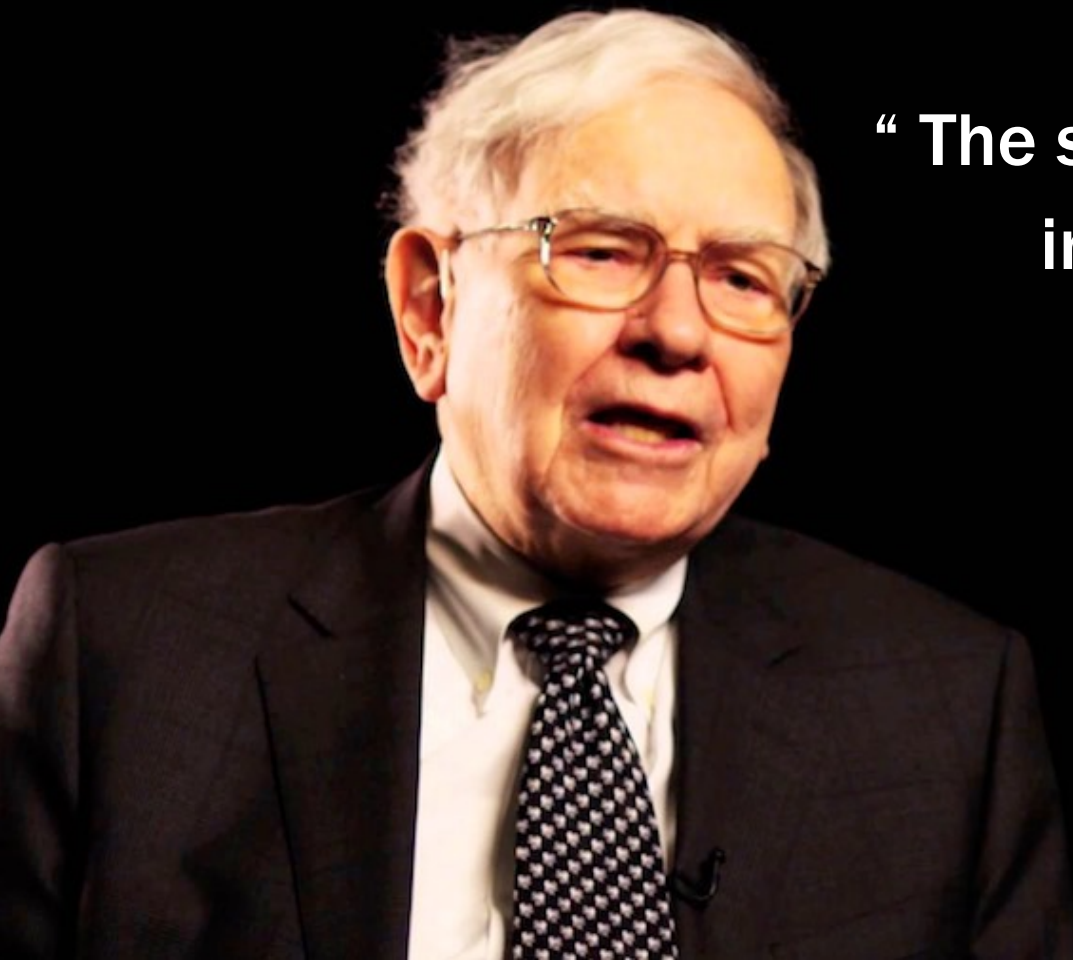Market Research

Strategic Pricing

Strategic Innovation

Agenda

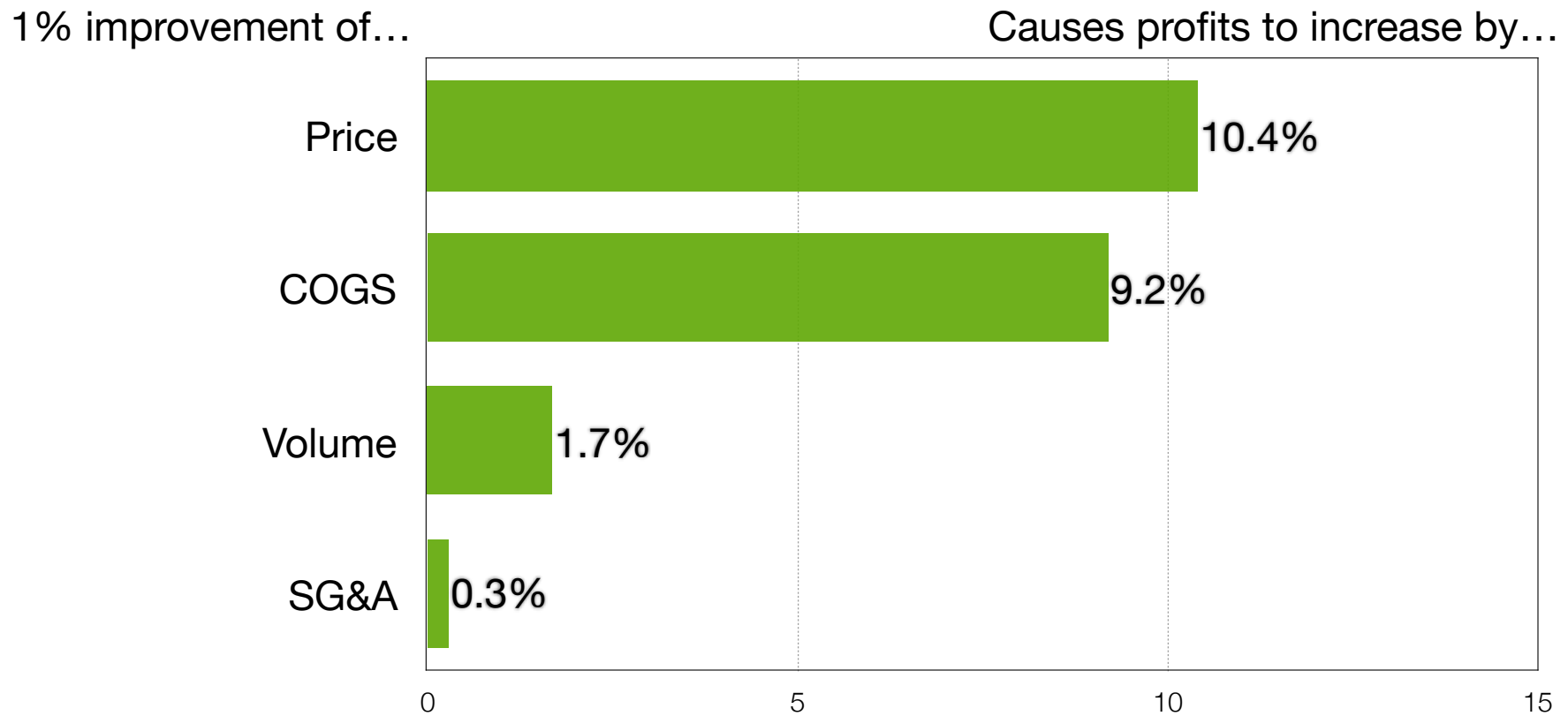How we think about pricing

Customer values

Value-based pricing

Pricing for maximum return

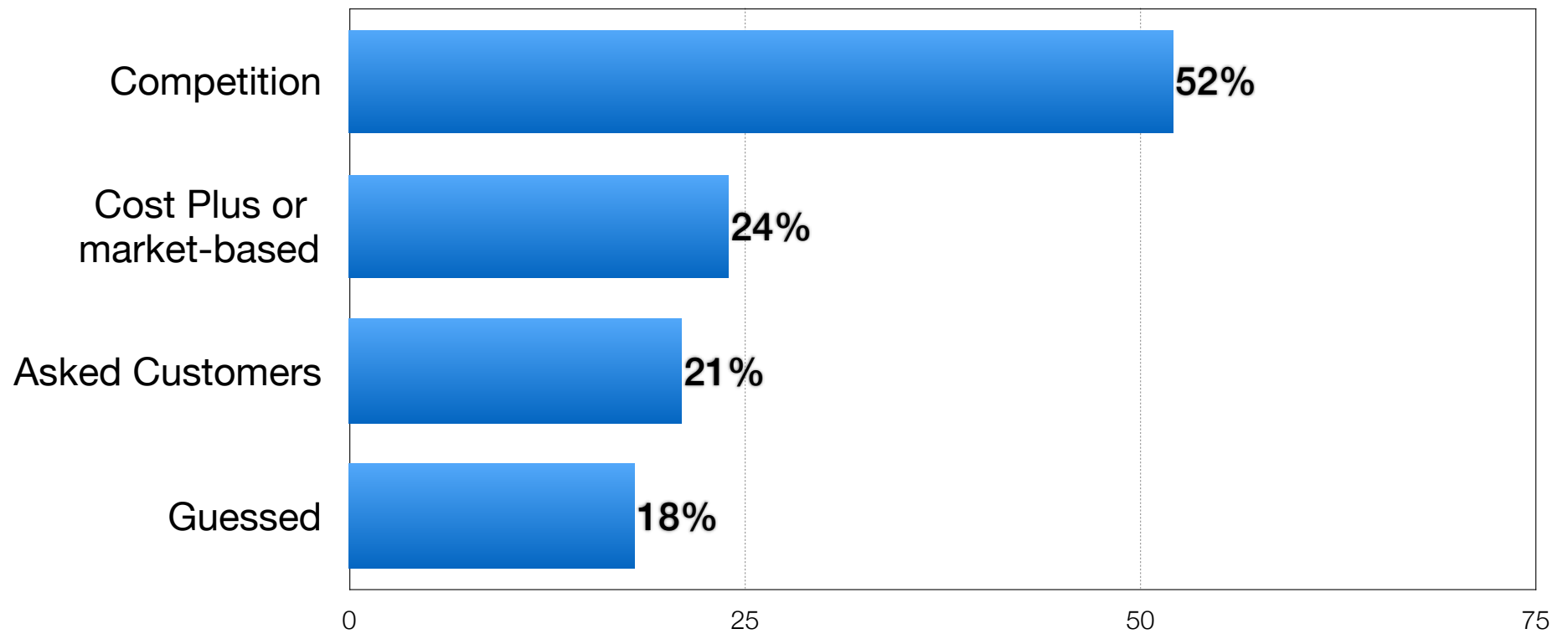" The single most important decision in evaluating a business is pricing power "

Warren Buffet

Why is pricing important?

1% improvement of…   Causes profits to increase by…

Price	10.4%
COGS	9.2%
Volume	1.7%
SG&A	0.3%

Source: SMC 2010

How is pricing set?

Competition	52%
Cost Plus or market-based	24%
Asked Customers	21%
Guessed	18%

0   25   50   75

Source: 2013 Price Intelligently survey. Respondents were allowed to select more than one response.

How NOT to set pricing

Competition	Cost Plus	Ask Customers	Guess
Your competitor sets the price	Your costs set a floor for your price	Your customers set the price	Just wing it
They don't know the right price either	**Don't let your costs set a ceiling**	**You're at their mercy**	**Why would anyone want to do this?**

If pricing is so important…

Why are we so bad at it?

?

How can we do better?

Agenda

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What is value?
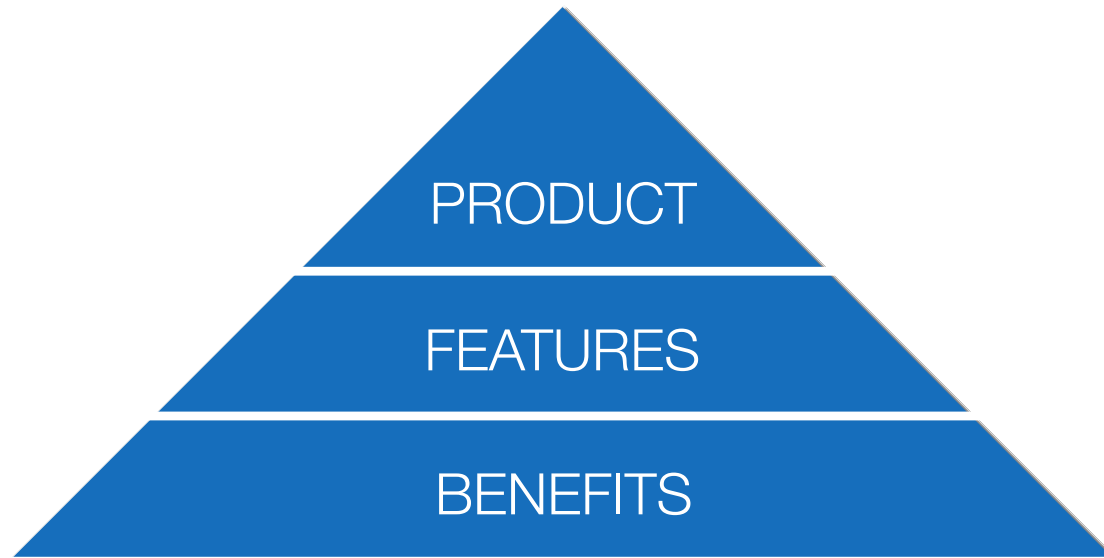
What we care about when making a buying decision

From the customers' perspective — not the seller's

What do we pay for?

PRODUCT

FEATURES

BENEFITS
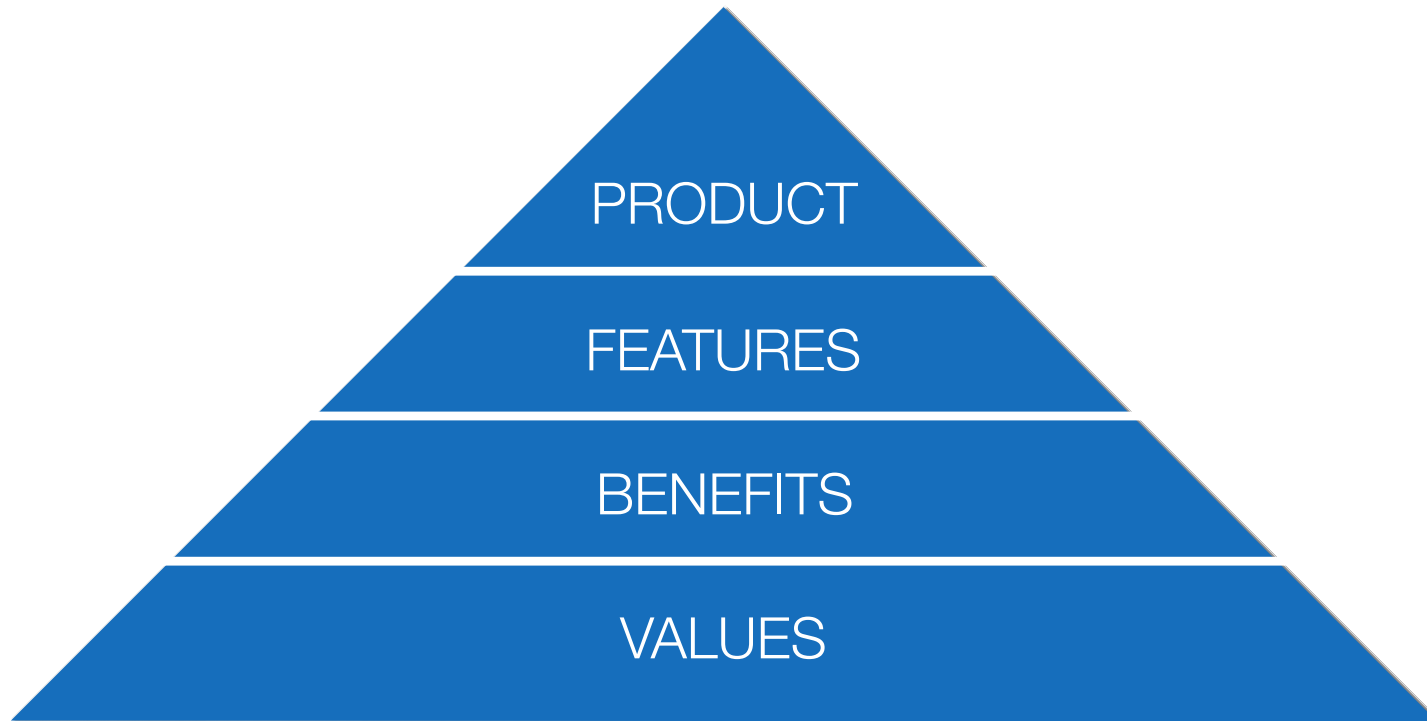
VALUES

What determines value?

theory

What determines value?

Context

Value Layers

Differentiation

Special Cases

Context

Where?

When?

Why?

Who?

Context

You can create value by changing the context of the experience

Context

Where: On site vs. Laptop vs. Cloud

When: Same day vs. Next week

Why: Emotional vs. Functional

Who: Millennials vs. Baby boomers

You can create value by changing the context of the experience

What determines value?

Context

Value Layers

Differentiation

Special Cases

Product

Solution Type

Problem / Job to be Done

Role / Identity

Different Values at Each Layer

Role / Identity

You can create value by targeting different roles or identities

Role / Identity

single / spouse / provider   user / buyer

status-seeker   purchasing agent

brand-loyal   distributor

You can create value by targeting different roles or identities

Problem / Job to be Done

You can create value by redefining the problem

Problem / Job to be Done

Lodging: Hotel vs. A place to stay

Photos: Capturing memories vs Social sharing

CRM: Managing prospects vs. Managing pipeline

You can create value by redefining the problem

Solution Type

You can create value by changing the type of solution

Solution Type

Lodging: Hotels vs. Couch Surfing

Photos: Film vs. Digital vs. Disappearing

CRM: On-premise vs. Cloud

You can create value by changing the type of solution

Product

You can create value through product innovation

Product

AirBnB: Rating both hosts and guests

Photos: Disappearing images and videos

CRM: Integration with other cloud services

You can create value through product innovation

Product

Solution Type

Problem / Job to be Done

Role / Identity

Different Values at Each Layer

What determines value?

Context

Value Layers

Differentiation

Special Cases

Differentiation

There's always an alternative

Differentiation

"The Competition"

D I Y

Do nothing

There's always an alternative

Differentiation

Differentiation from the alternative **defines** product value

If that differentiation isn't valued,

your product has no more value than the competition

Differentiation **drives** pricing power

Differentiation

How is your product different from the best alternative?

What is the net value of those differences?

Differentiation *defines* value

What determines value?

Context

Value Layers

Differentiation

Special Cases

Special Cases

Pricing
Branding
Targeting
Channels
Marketplaces
Others

Topics for another day

Pricing
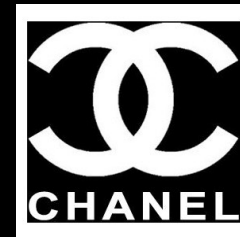
You can add value via

Pricing

Pricing models

Pricing

A higher price can add value, by connoting:

Higher quality

Rarity / Exclusivity

Desirability

Pricing

A **lower price** can add value, by connoting:

A "good deal"

A limited-time offer

Pricing Models

Pricing models are a great area for **strategic innovation**

Pricing Models

Subscription vs Purchase: Salesforce.com

All-you-can-eat Subscription: Netflix

Adaptive Subscriptions: Slack

Membership: Amazon Prime

Pricing model innovation creates value

What determines value?

What determines value?

Your **customers' values**

Your own perception of value is irrelevant

Your perception is **not** your customers' perception

So make sure you **measure** your customers' values

Discovering Values

Agenda

How we think about pricing

Customer values

Value-based pricing strategy

Pricing for maximum return

Value-based pricing strategy

Start ☑ **Determine pricing objective**

☐ Segment for maximum return

☐ Determine metrics

☐ Develop your pricing grid

☐ Test, iterate & optimize

There are two kinds of companies, those that work to try to charge more and those that work to charge less. We will be the second.

(Jeff Bezos)

What is your pricing objective?

Choose one

Market share

Revenue

Profit

Retention

Defend vs. new competitor

Awareness / Trial

What is your pricing objective?

Align your entire team to achieve this one objective

Choose one | Market share
Revenue
Profit
Retention
Defend vs. new competitor
Awareness / Trial

Value-based pricing strategy

☑ Determine pricing objective

☑ **Segment for maximum return**

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Segment for Maximum Return

Different customer segments…

Have different *willingness* and *ability* to pay

Get *different amounts of value* from the *same product*

Segment for Maximum Return

Different *willingness* and *ability* to pay

Price sensitive

Value sensitive

Quality sensitive

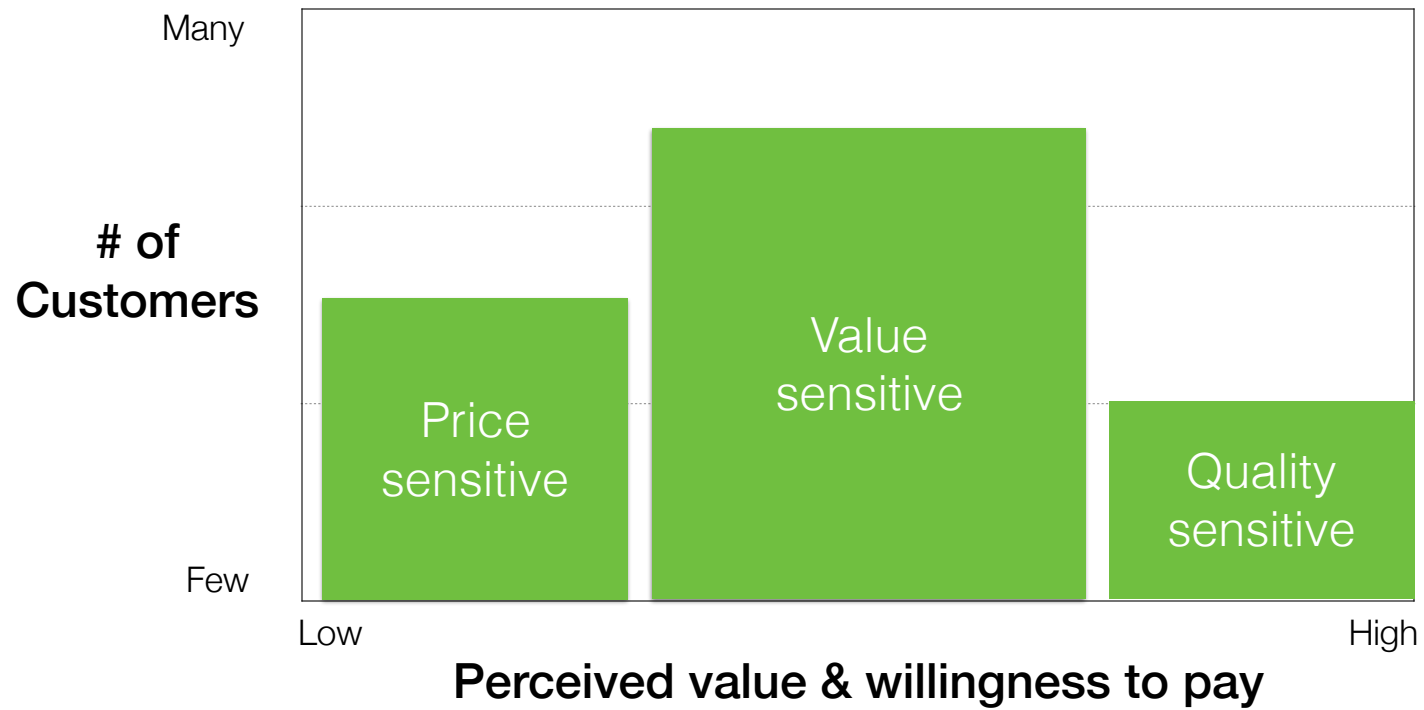# Segment for Maximum Return

Different *willingness* and *ability* to pay

Price sensitive —> Low Margin

Value sensitive

Quality sensitive —> High Margin

Pricing predicament
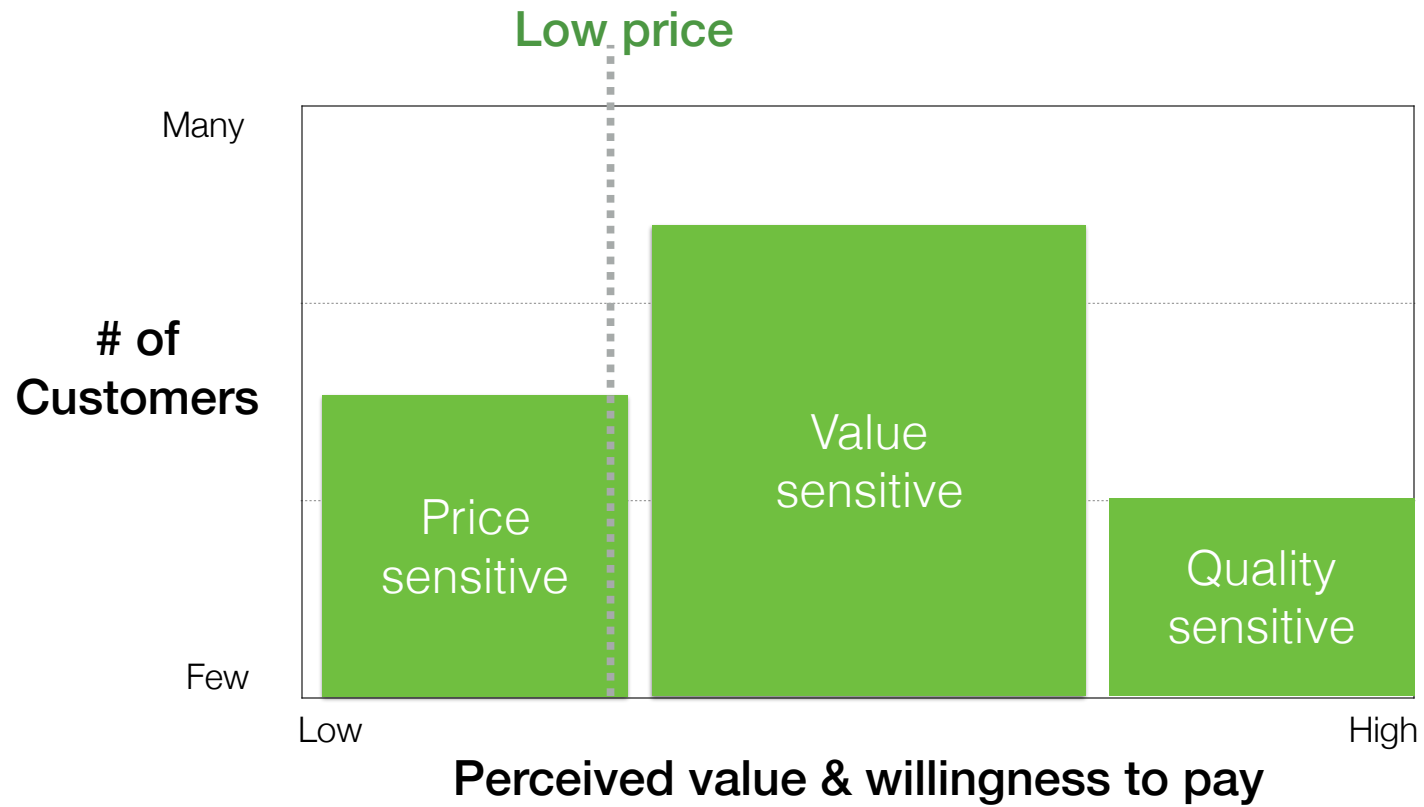
Pricing predicament
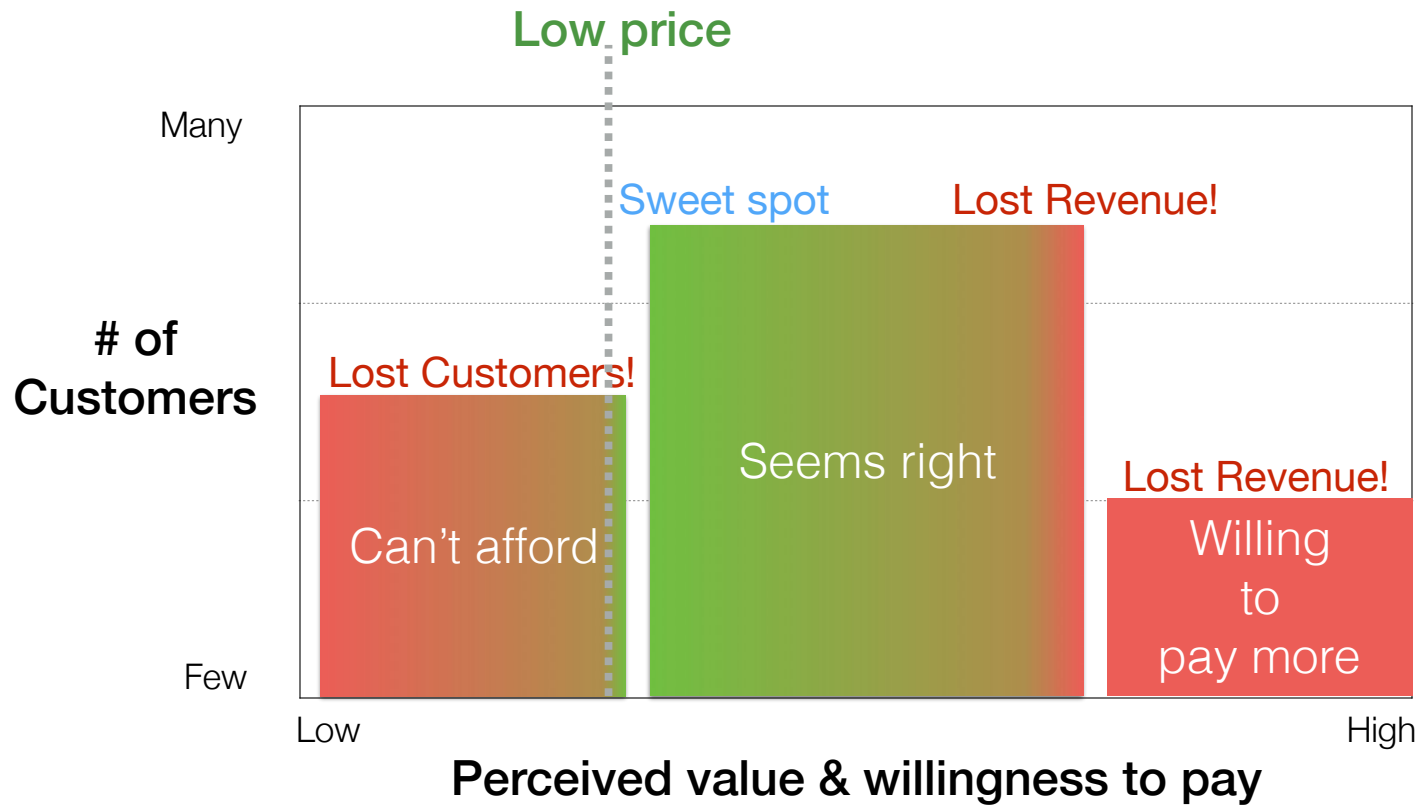
Pricing predicament
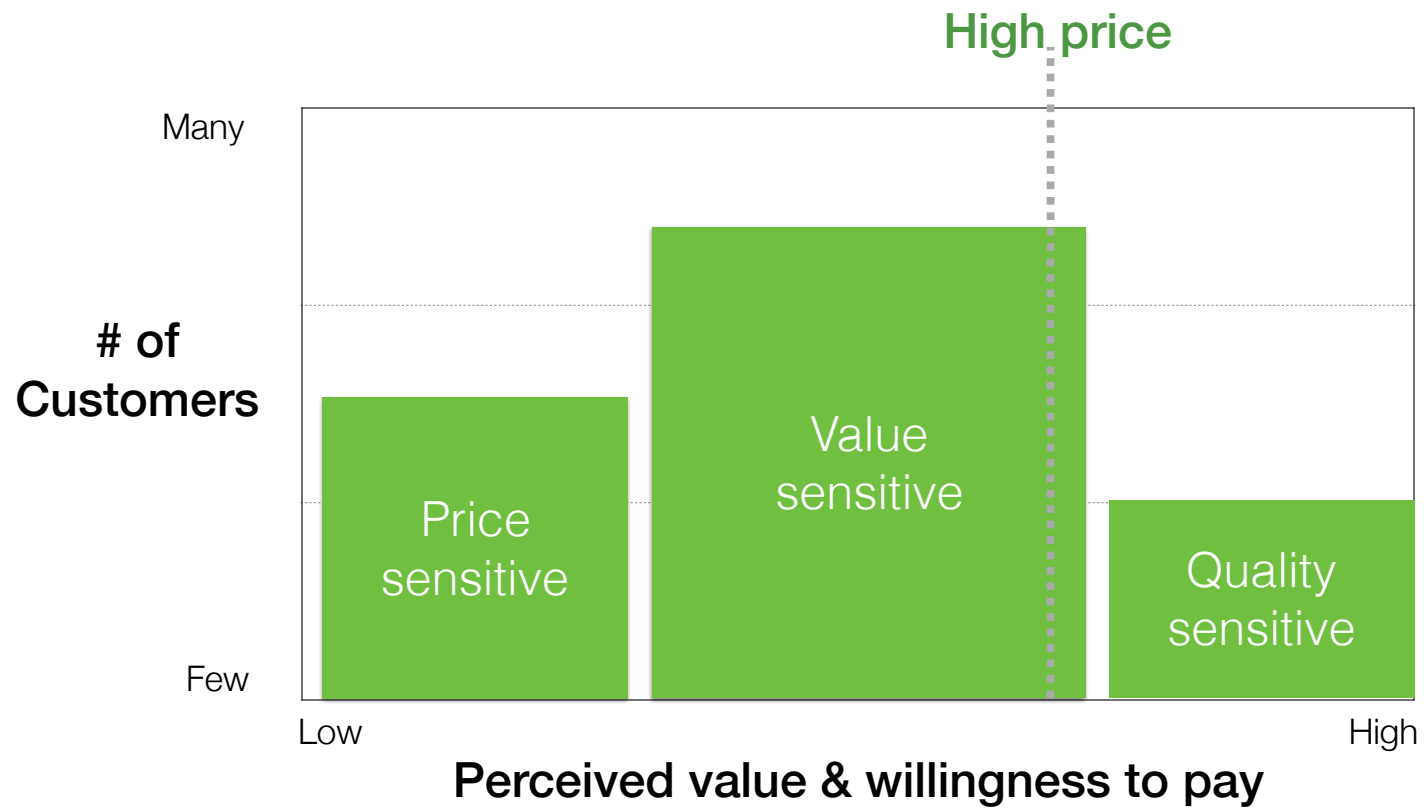
Pricing predicament
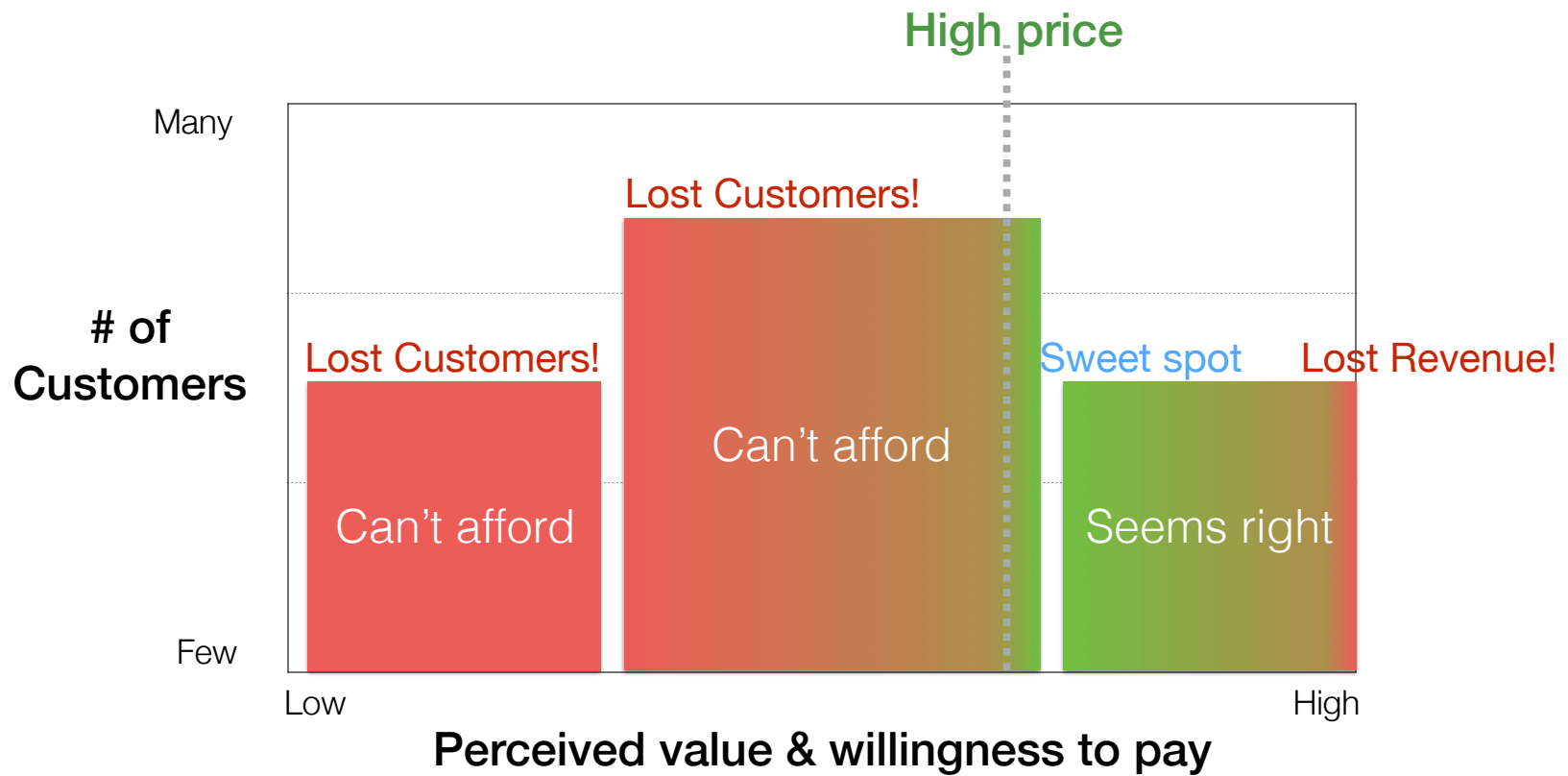
Solution: Segmentation

Different segments…
      get *different amounts of value* from the *same product*

    Larger companies…

          have more employees using your product

          use **more advanced features**

          make **more transactions** with your product

Value-based pricing strategy

- ☑ Determine pricing objective

- ☑ Segment for maximum return

- ☑ **Determine metrics**

- ☐ Develop your pricing grid

- ☐ Test, iterate & optimize

Value Metric

Value metric = the unit by which the customer measures value

Value metric determines how much a customer is willing to pay

Credit: Steven Forth

Value Metric

Value metric = the unit by which the customer measures value

Value metric determines how much a customer is willing to pay

Transactions   New customers

Leads   Time savings

Impressions   Risk reduction

Credit: Steven Forth

Pricing Metric

Pricing metric = the unit by which you set a price

Find a pricing metric that closely tracks the value metric

Credit: Steven Forth

Metrics

The **value metric** comes from **understanding your customers**

Your **pricing metric** is an important **opportunity for innovation**

Credit: Steven Forth

Pricing Metrics in Action

Company / Product	Value Metric	Pricing Metric
Google Adwords	Ad Effectiveness	Pay per click
Survey Monkey	Survey complexity and sample size	# of questions, responses, & some functionality
Hubspot	Client's target market size, marketing activity	# of contacts, some functionality & add-ons
KissMetrics	Depth of app analytics	Number of app events
Toyota	Performance, comfort, luxury	Base model, engine, feature bundle

Segment for Maximum Return

Different market segments often have different **value metrics**

To maximize return, identify best **metrics for each segment**

Value-based pricing strategy

- ☑ Determine pricing objective

- ☑ Segment for maximum return

- ☑ Determine metrics

- ☑ **Develop your pricing grid**

- ☐ Test, iterate & optimize

Enter the Pricing Grid

	Trial Free for 30 Days	Business $99 per month	Team $49 per month	Solo $24 per month
Active Projects	15	35	15	5
File Storage	1GB	5GB	2GB	500MB
Site Branding	✔	✔	✔	----
Users/Reviewers	Unlimited	Unlimited	Unlimited	Unlimited
	Try It!	Sign Up	Sign Up	Sign Up
New! Annual Billing Get 12 Months for Price of 11	----	$1089 Yearly Buy Now	$539 Yearly Buy Now	$264 Yearly Buy Now

Enter the Pricing Grid

Market segments

Pricing metrics

	Trial Free for 30 Days	Business $99 per month	Team $49 per month	Solo $24 per month
Active Projects	15	35	15	5
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Site Branding	✔	✔	✔	----
Users/Reviewers	Unlimited	Unlimited	Unlimited	Unlimited
	Try It!	Sign Up	Sign Up	Sign Up
New! Annual Billing Get 12 Months for Price of 11	----	$1089 Yearly Buy Now	$539 Yearly Buy Now	$264 Yearly Buy Now

Prices

Enter the Pricing Grid

Are these the right…

Market segments?

Pricing metrics?

	Trial Free for 30 Days	Business $99 per month	Team $49 per month	Solo $24 per month
Active Projects	15	35	15	5
File Storage	1GB	5GB	2GB	500MB
Site Branding	✔	✔	✔	----
Users/Reviewers	Unlimited	Unlimited	Unlimited	Unlimited
	Try It!	Sign Up	Sign Up	Sign Up

New! Annual Billing
Get 12 Months for Price of 11

---- $1089 Yearly Buy Now $539 Yearly Buy Now $264 Yearly Buy Now

Prices?

Value-based pricing strategy

☑ Determine pricing objective

☑ Segment for maximum return

☑ Determine metrics

☑ Develop your pricing grid

☑ **Test, iterate & optimize**

Agenda

How we think about pricing

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How to Price for Maximum Return

Start here

▷ **Discover** and **measure** what your customers **value** most

▷ **Choose** the right **objective**: Market Share? Revenue? Profit? Other?

▷ **Segment** your market based on *their* **perception** of value

▷ **Identify** *your customers'* **value metrics**

▷ **Build** your pricing grid with matching **pricing metrics**

▷ **Track, communicate and charge for** value your customers perceive

▷ **Test**, measure, and iterate to optimize

Not here

Do you really know…

What your customers actually value?

What is the value of your differentiation?

What are the right segments?

What are the right value metrics?

What are the right pricing metrics?

What are the right prices?

You don't have to guess

What your customers actually value?

What is the value of your differentiation?

What are the right segments?

What are the right value metrics?

What are the right pricing metrics?

What are the right prices?

All of these are knowable

All of these depend on your **customers' perception of value**

Your customers' *perception of value can be measured*

You won't find the right price
in the office

What's a cup of coffee worth?

Coffee with customers to discover their values?

PRICELESS

Thank You

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How to price your products for maximum return

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