

Your Price is Wrong

How to price your products for maximum return

Alan Albert

MARKETFIT

marketfit.com

alan@marketfit.com

[@A_Albert](#)

Presentation copyright © 2017 Alan Albert All rights reserved



How to price your products for maximum return

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, minty - 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 - tart orange, chocolate - mountain















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

MARKETFIT

Strategic Services for Measurable Growth

Alan Albert

marketfit.com

alan@marketfit.com

[@A_Albert](#)

Advisory Services

Corporate Strategy

Product / Marketing Strategy

Business Coaching

Consulting Services

Customer Research

Strategic Pricing

Strategic Innovation

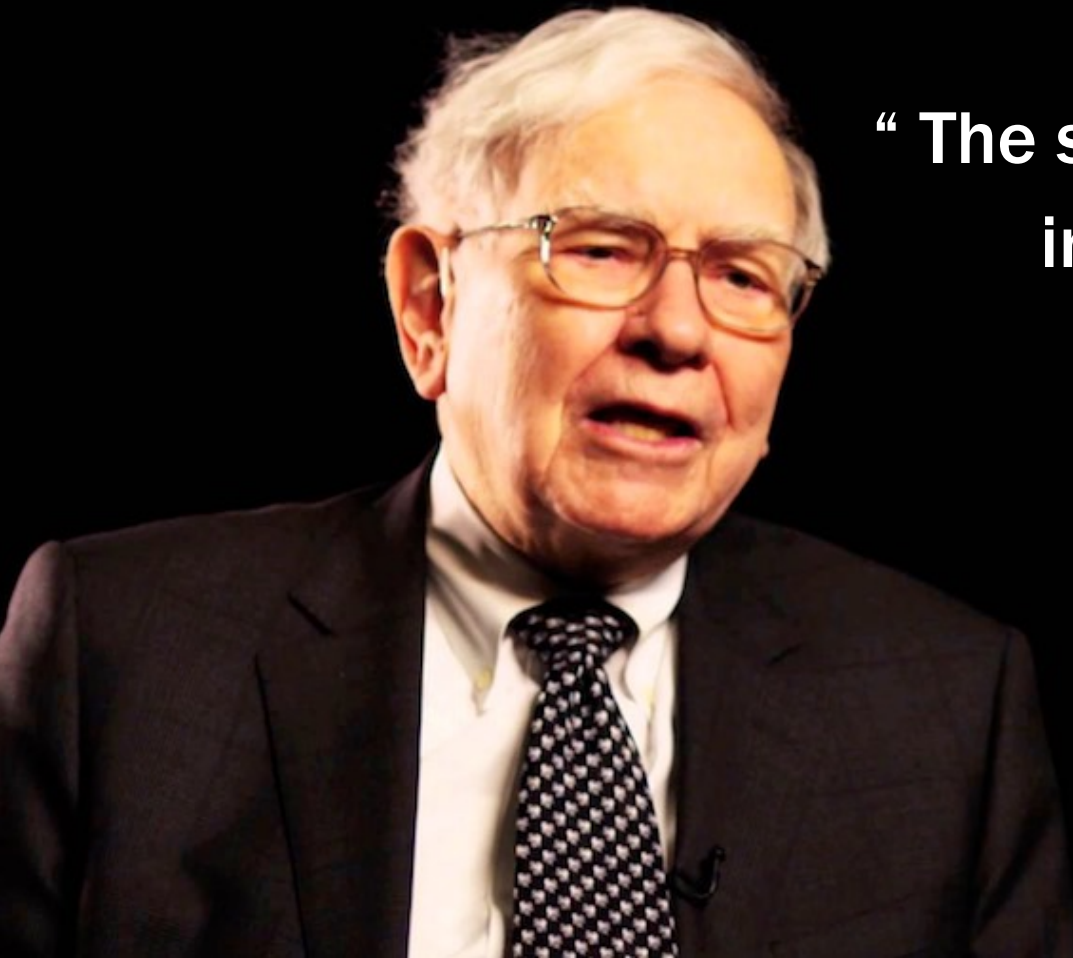
Agenda

How we think about pricing

Customer values

Value-based pricing

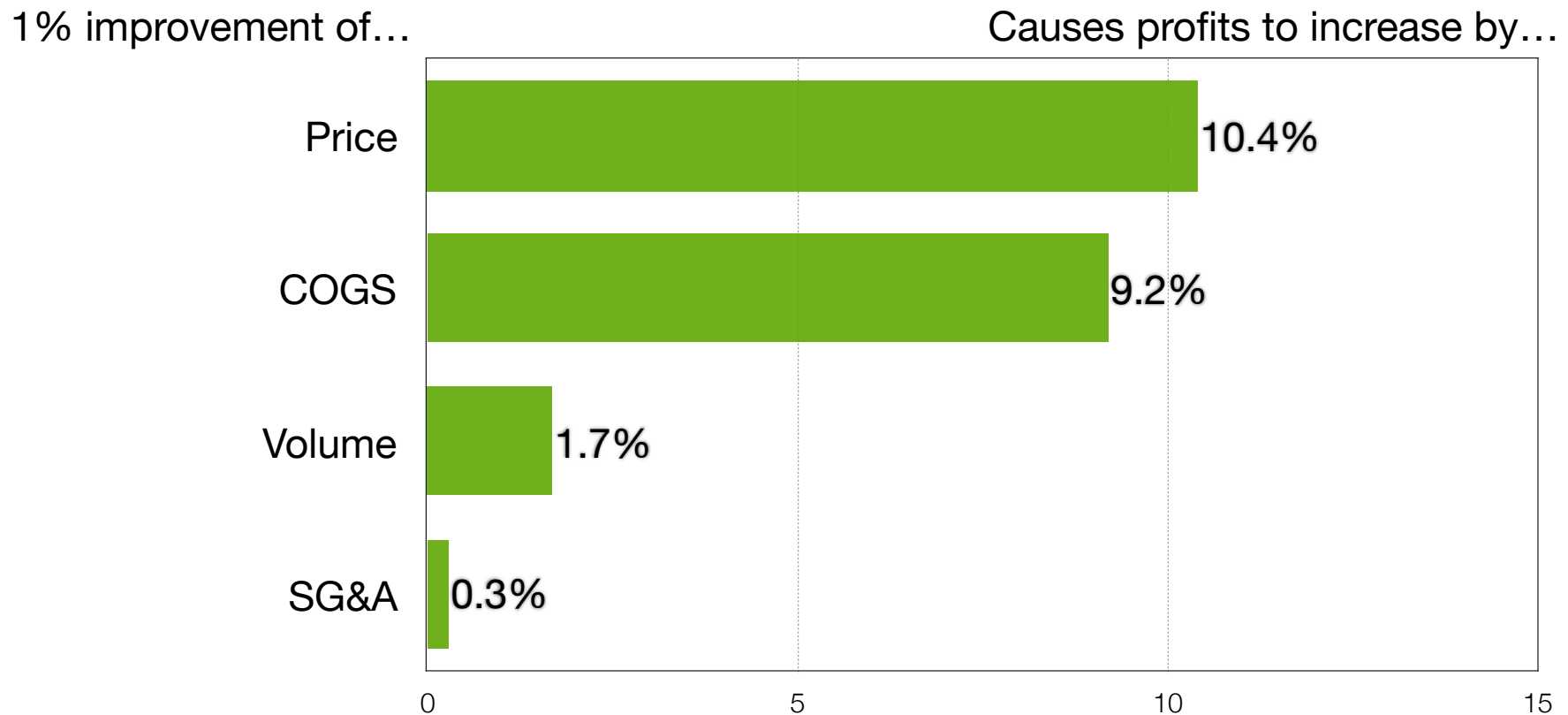
Pricing for maximum return



**“ The single most important decision
in evaluating a business is
pricing power ”**

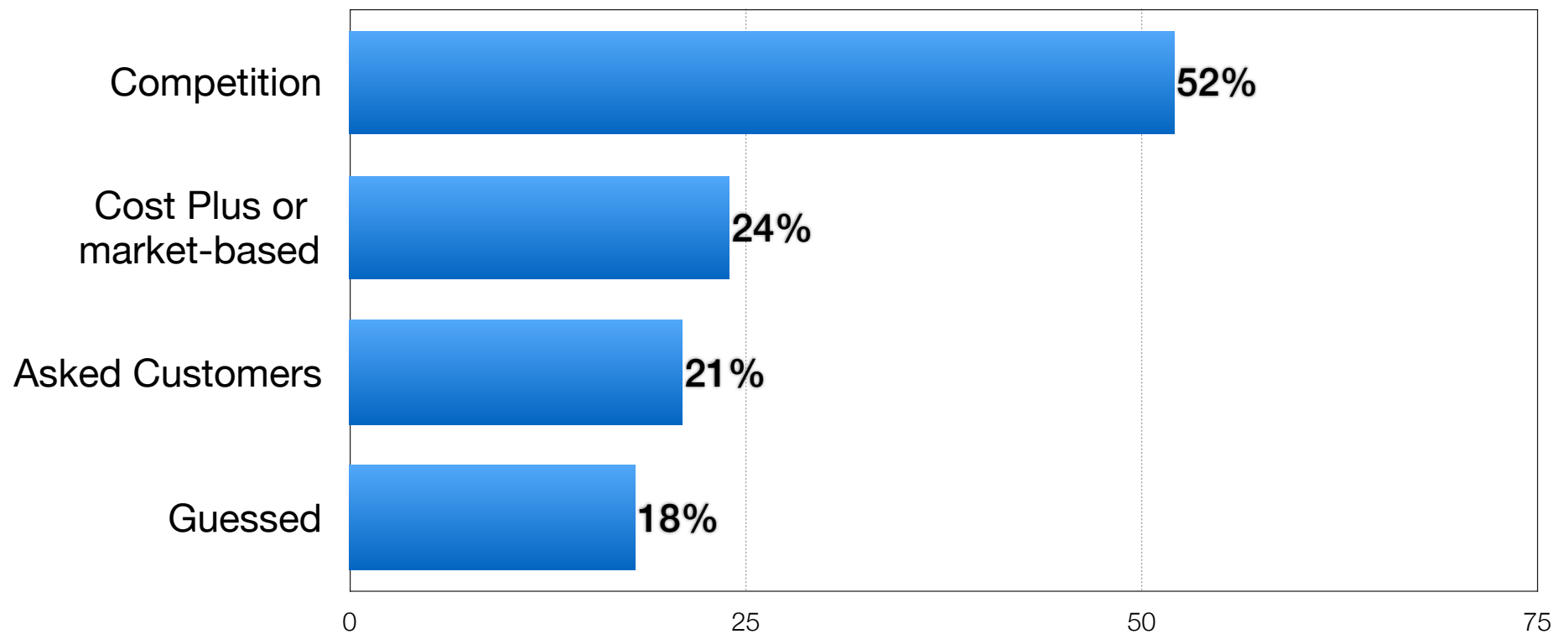
Warren Buffet

Why is pricing important?







Source: SMC 2010

How is pricing set?



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?

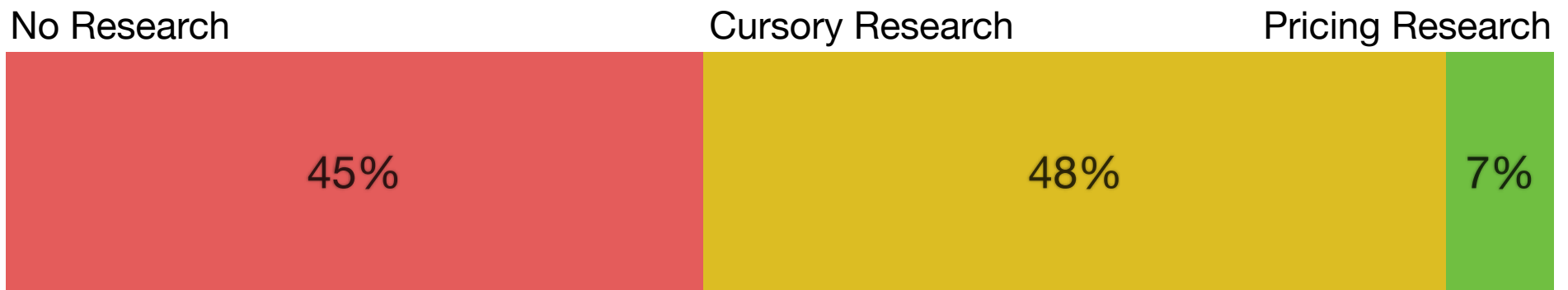
If pricing is so important...

Why are we so bad at it?



How can we do better?

Is Customer Research Used for Pricing?



SaaS Companies Use of Customer Discovery Research in Pricing

Source: Kyle Poyar, OpenView

Agenda

How we think about pricing

Customer values

Value-based pricing

Pricing for maximum return

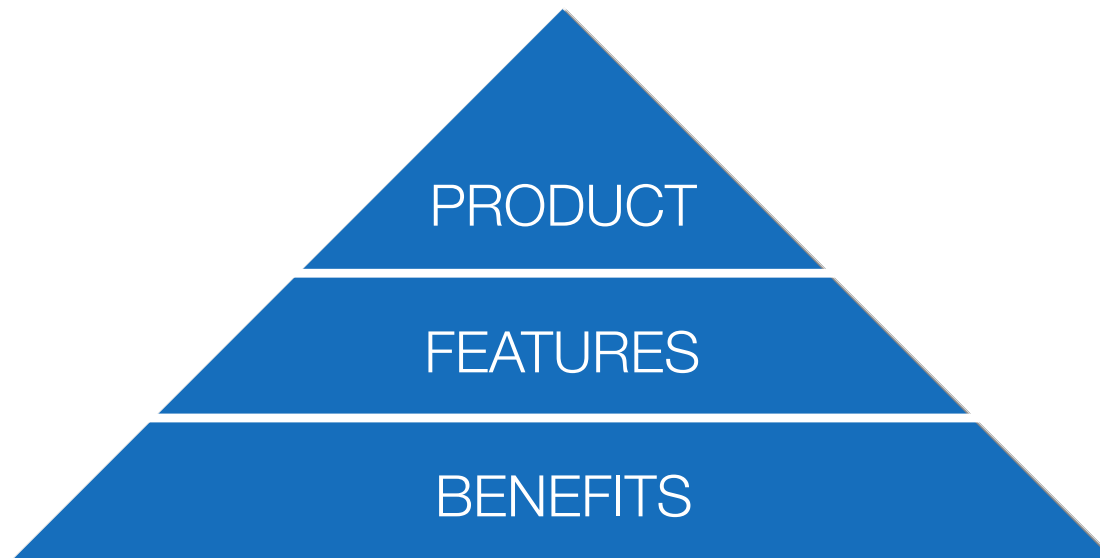
What is value?

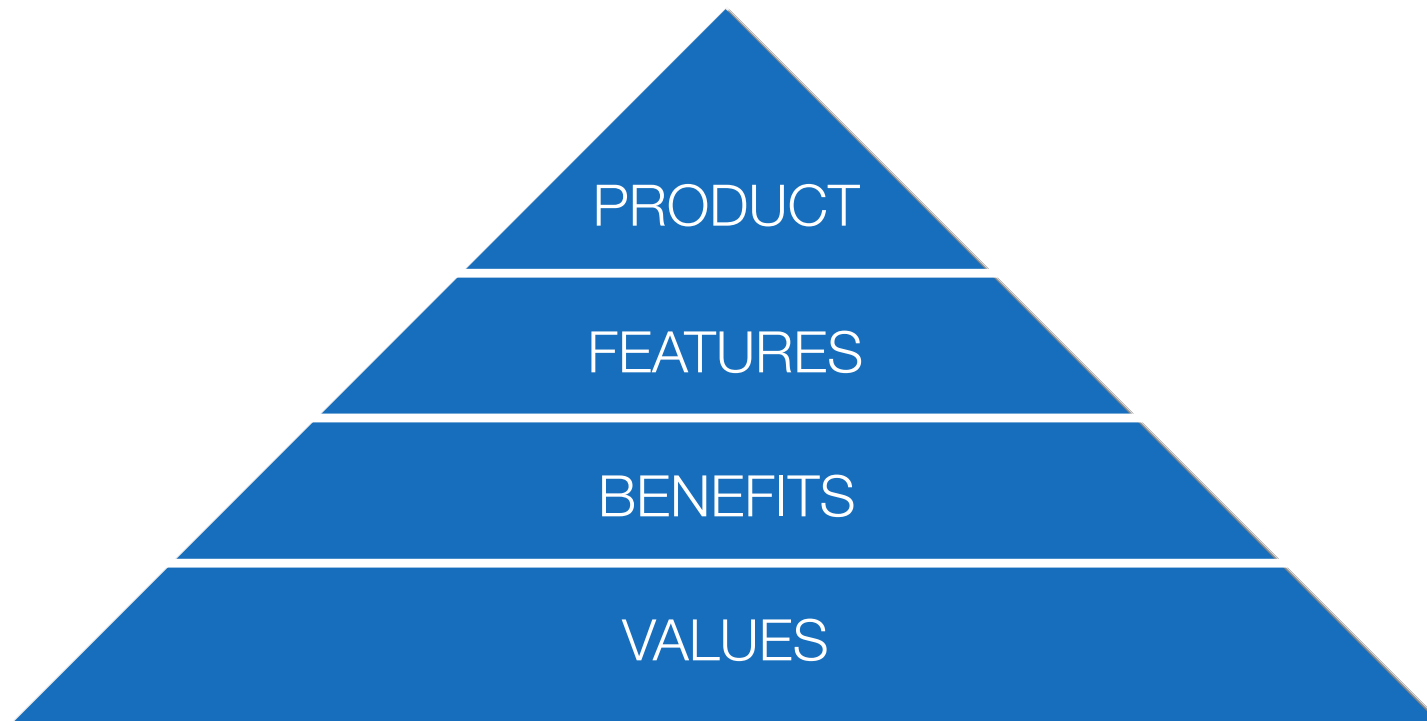
What we care about when making a **buying decision**

From the **customers' perspective** — not the seller's

What do we pay for?







What determines value?

t h e o r y

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

VALUE LAYERS

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

status-seeker

brand-loyal

user / buyer

purchasing agent

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

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

VALUE LAYERS

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?

Are you the *only* provider of a key differentiator?

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

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

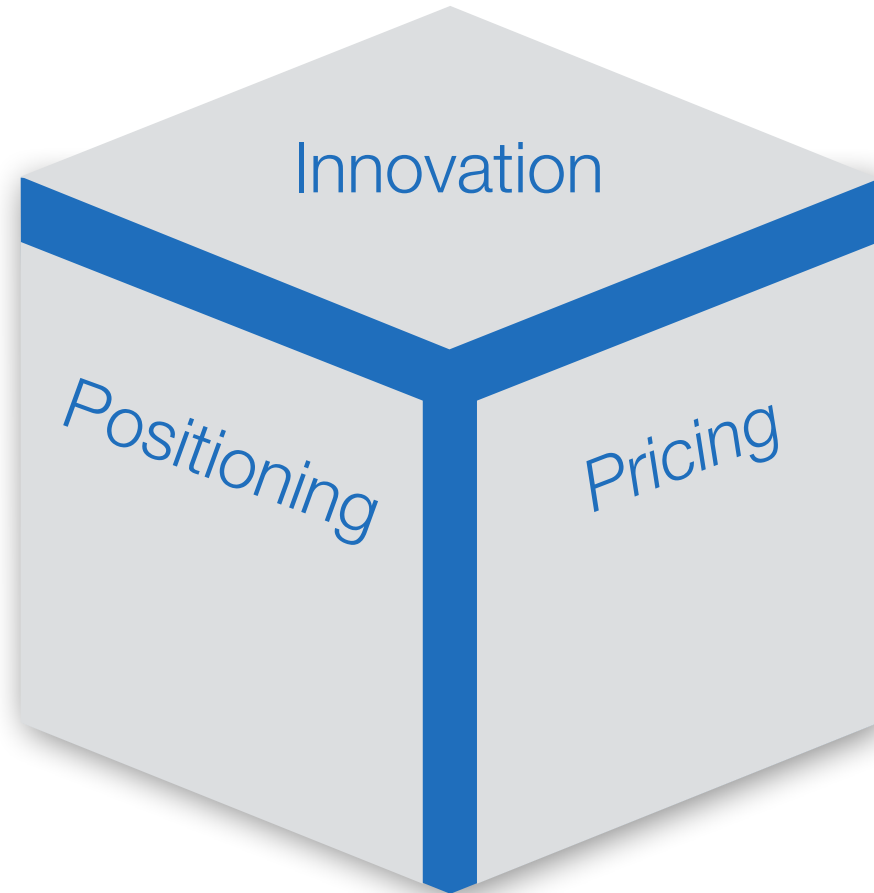
So make sure you **measure** your customers' values

Discovering **Customer Values**

Measure your **customers**

Not their reaction to your product

Customer Values



Agenda

How we think about pricing

Customer values

Value-based pricing strategy

Pricing for maximum return

Value-based pricing strategy

Start here



☒ **Discover customer values**

- ☐ Determine pricing objective
- ☐ Segment for maximum return
- ☐ Determine metrics
- ☐ Develop your pricing grid
- ☐ Test, iterate & optimize

Value-based pricing strategy

- ☑ **Discover customer values**
- ☑ **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

- ☑ **Discover customer values**
- ☑ **Determine pricing objective**
- ☑ **Segment for maximum return**
- ☐ Determine metrics
- ☐ Develop your pricing grid
- ☐ Test, iterate & optimize

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

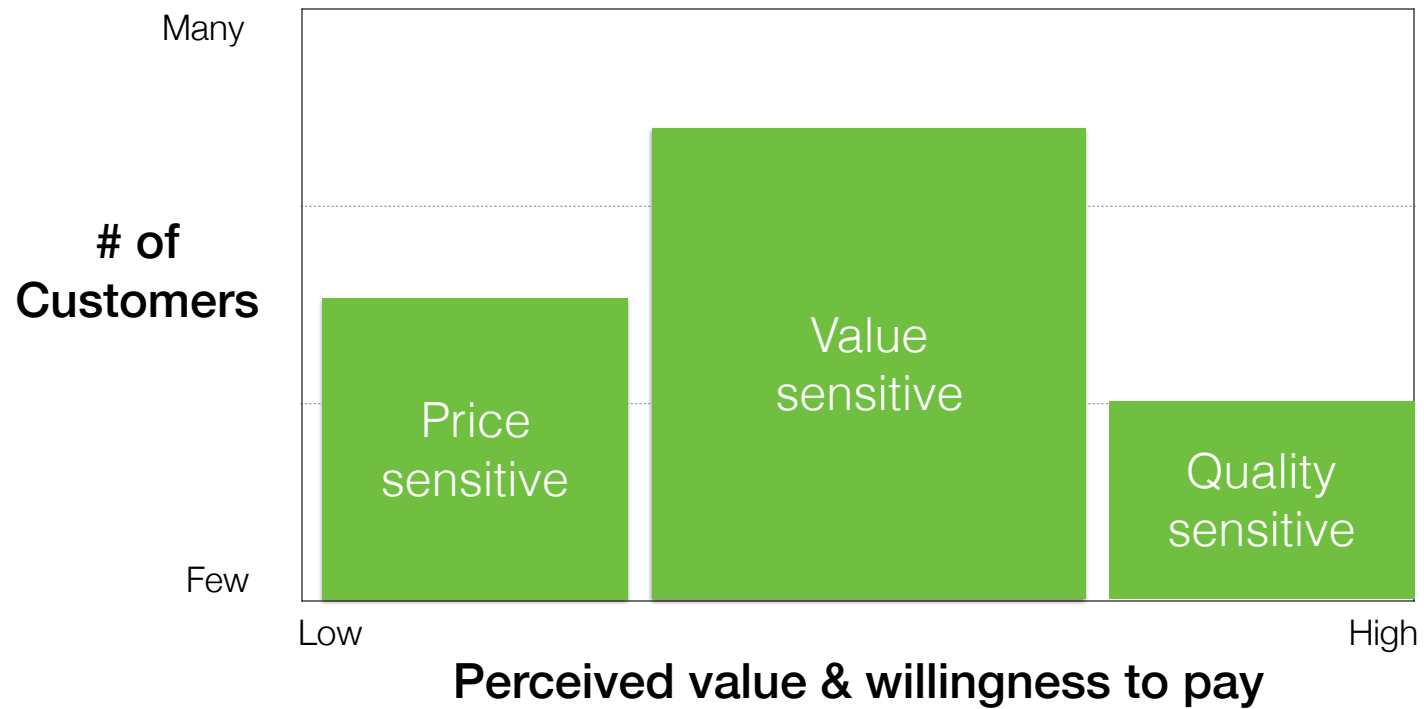
Different *willingness* and *ability* to pay

Price sensitive → Low Margin

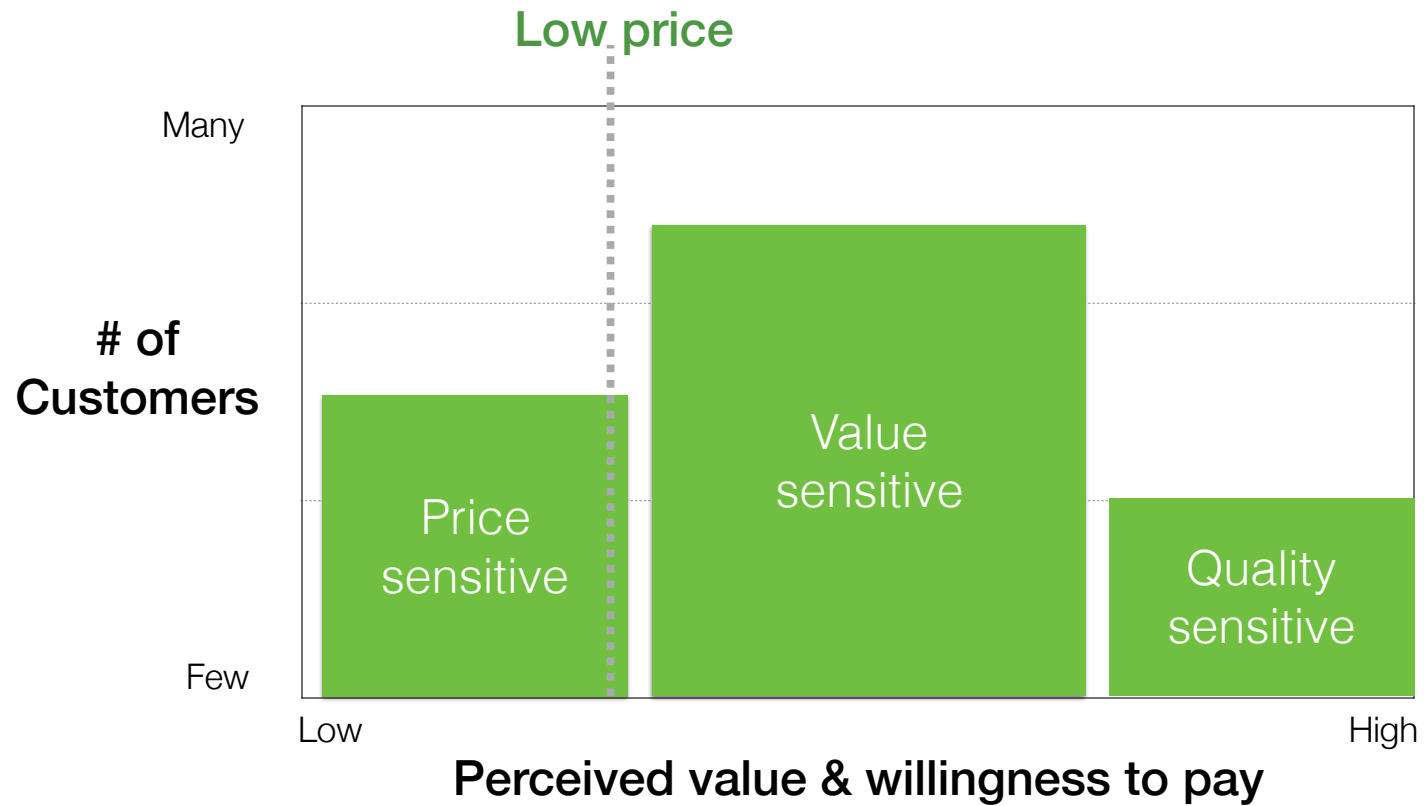
Value sensitive

Quality sensitive → High Margin

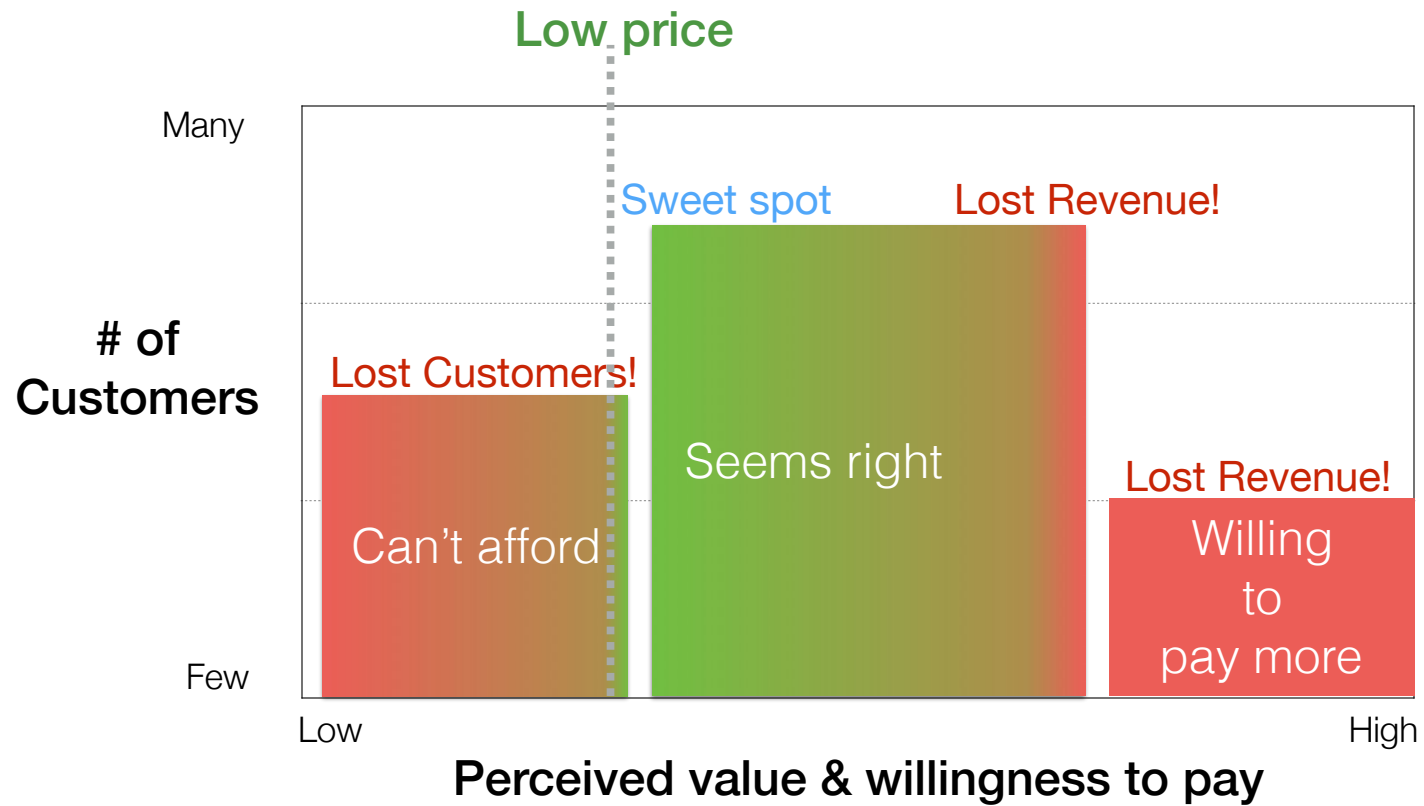
Pricing predicament



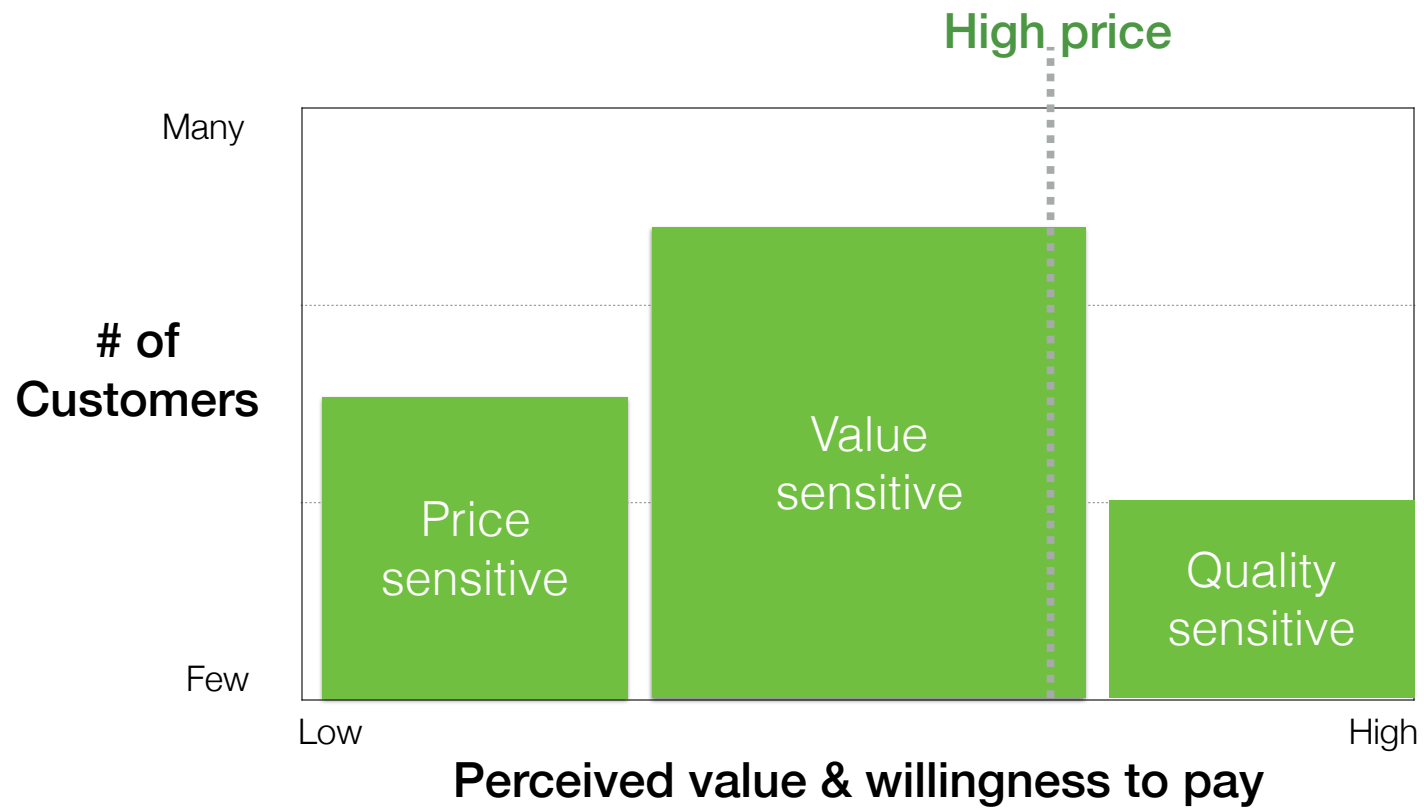
Pricing predicament



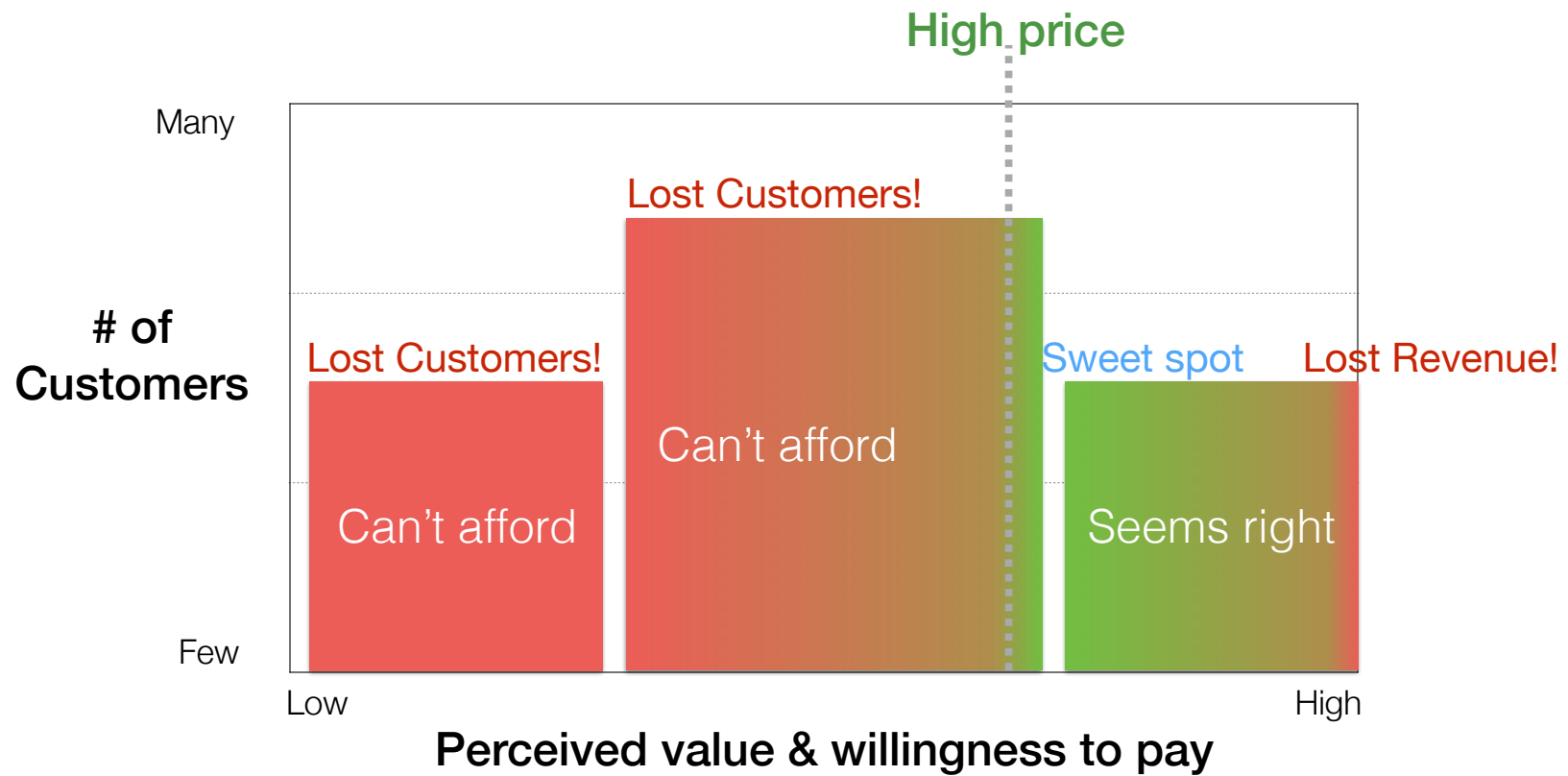
Pricing predicament



Pricing predicament



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

- ☑ **Discover customer values**
- ☑ **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
Toyota	Performance, comfort, luxury	Base model, engine, feature bundle
Google Adwords	Ad Effectiveness	Pay per click
KissMetrics	Depth of app analytics	Number of app events
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

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

- ☑ **Discover customer values**
- ☑ **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	Solo \$24 per month	Team \$49 per month	Business \$99 per month
Active Projects	15	5	15	35
File Storage	1GB	500MB	2GB	5GB
Site Branding	✓	---	✓	✓
Users / Reviewers	Unlimited	Unlimited	Unlimited	Unlimited

New! Annual Billing
Get 12 Months for Price of 11

Try it!

Sign Up

\$1089 Yearly
Buy Now

Sign Up

\$539 Yearly
Buy Now

Sign Up

\$264 Yearly
Buy Now

Enter the Pricing Grid

Market segments

Pricing metrics

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

New! Annual Billing
Get 12 Months for Price of 11

Try it!

Sign Up

\$1089 Yearly

Buy Now

Sign Up

\$539 Yearly

Buy Now

Sign Up

\$264 Yearly

Buy Now

Prices

Enter the Pricing Grid

Are these the right...

Market segments ?

Pricing metrics ?

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

New! Annual Billing
Get 12 Months for Price of 11

Try it!

Sign Up

\$1089 Yearly

Buy Now

Sign Up

\$539 Yearly

Buy Now


Sign Up

\$264 Yearly

Buy Now

Prices ?

Value-based pricing strategy

- ☑ **Discover customer values**
- ☑ **Determine pricing objective**
- ☑ **Segment for maximum return**
- ☑ **Determine metrics**
- ☑ **Develop your pricing grid**
- ☑ **Test, iterate & optimize**  For another day

Agenda

How we think about pricing

Customer values

Value-based pricing strategy

Pricing for maximum return

How to Price for Maximum Return

Start here

- ☒ **Discover customer values**
- ☒ **Determine pricing objective**
- ☒ **Segment for maximum return**
- ☒ **Determine metrics**
- ☒ **Develop your pricing grid**
- ☒ **Test, iterate & 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?



Your Price is Wrong

How to price your products for maximum return

Alan Albert

MARKETFIT

marketfit.com
alan@marketfit.com
@A_Albert

Presentation copyright © 2017 Alan Albert All rights reserved