

# Pricing and Innovation



New  
Ventures BC

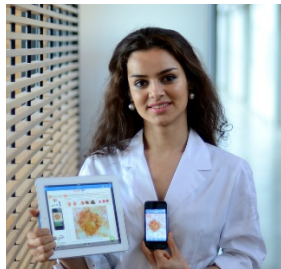
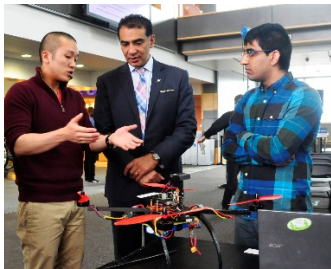
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New Ventures BC

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# About your presenter

Cofounder of seven companies (Boston, Tokyo, Vancouver)

- Most recently the cloud value management platform **LeveragePoint**
- and the skill management and team building platform **TeamFit.co**
- plus a private professional services firm

Active angel investor (direct and through angel funds)

- Participate on due diligence teams

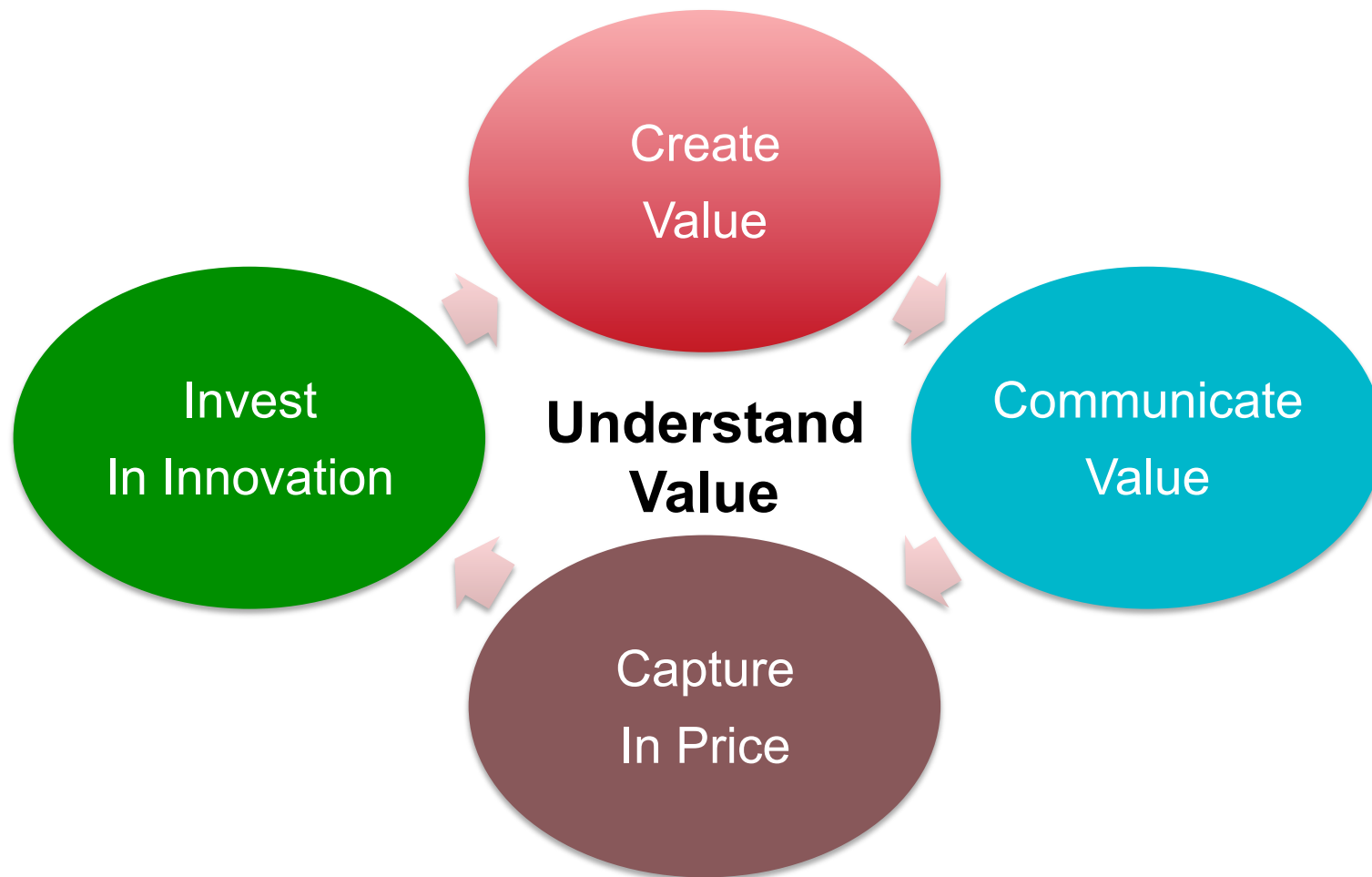
Consultant on innovation, pricing and design

- Advising several early-stage projects at small and large companies

**Passionate about how to make innovation successful& self sustaining**



# The innovation cycle



# What is pricing?



Pricing is about more than picking a number

It begins with understanding value to the customer (relative to their alternatives)

Price is how you frame the value you provide

Pricing is a core part of your offer

Pricing is a place to innovate

# When to worry about pricing?



## **Theory 1 – Later, it comes down the road**

After product-market fit

## **Theory 2 – At the beginning, it is core to your business model**

Pricing is based on value

Pricing architecture is core to product

Pricing can be the source of innovation

Worry about pricing metric and architecture from day 1

Worry about pricing levels & tactics once you have product market fit

# Order of operations

## Common

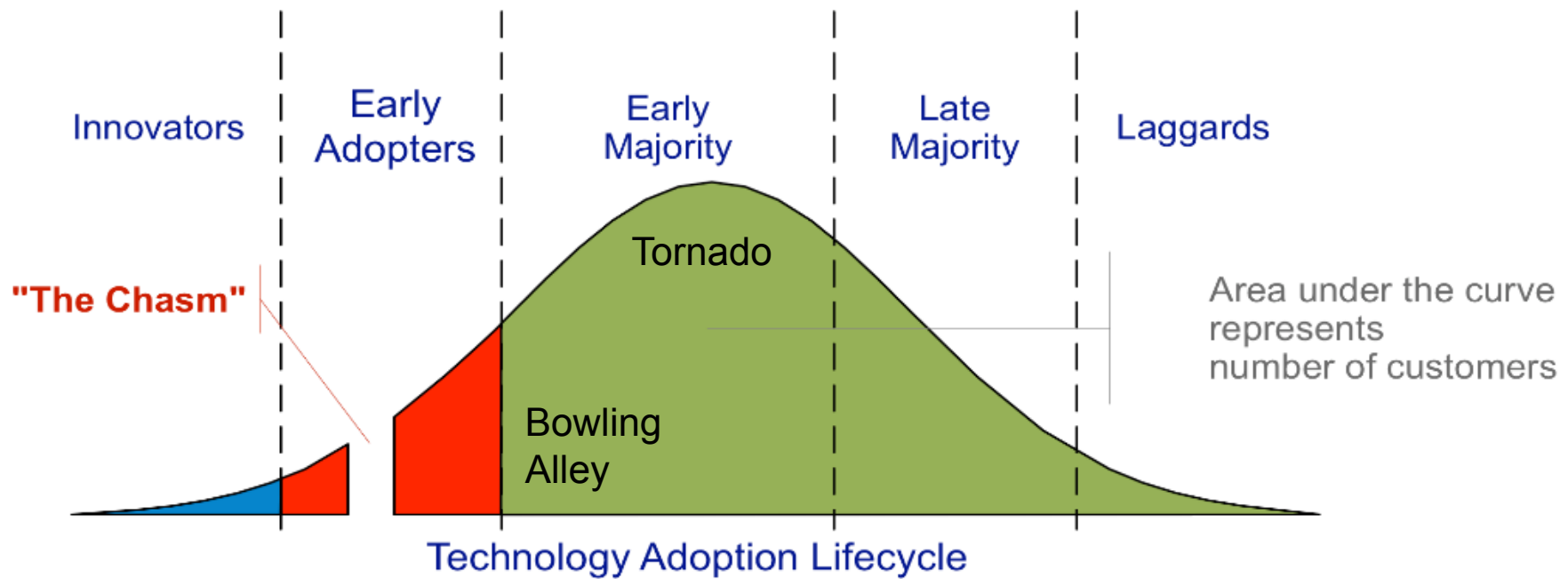


## Compelling



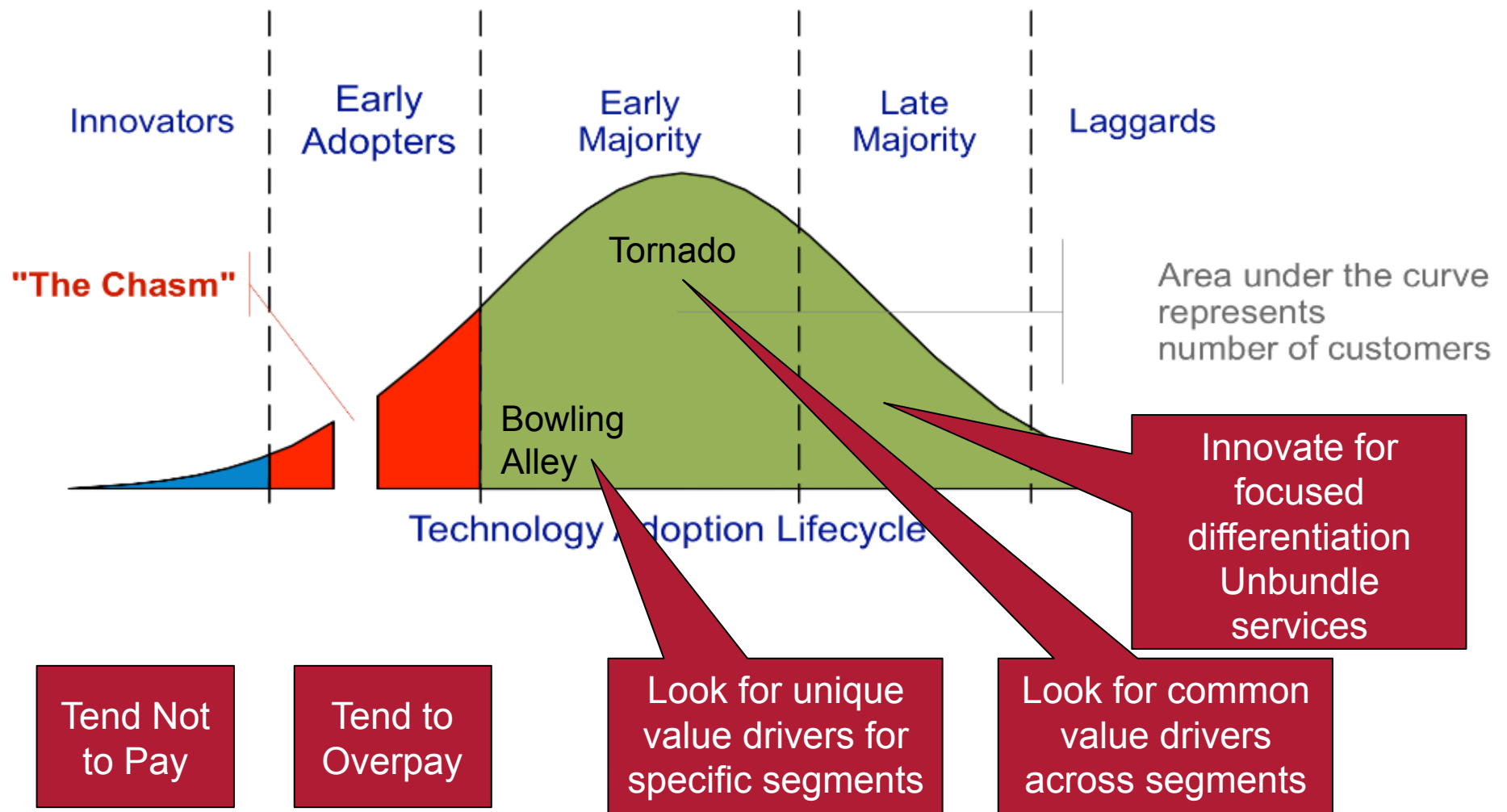
# Moore's technology adoption cycle

## Sustaining Innovations



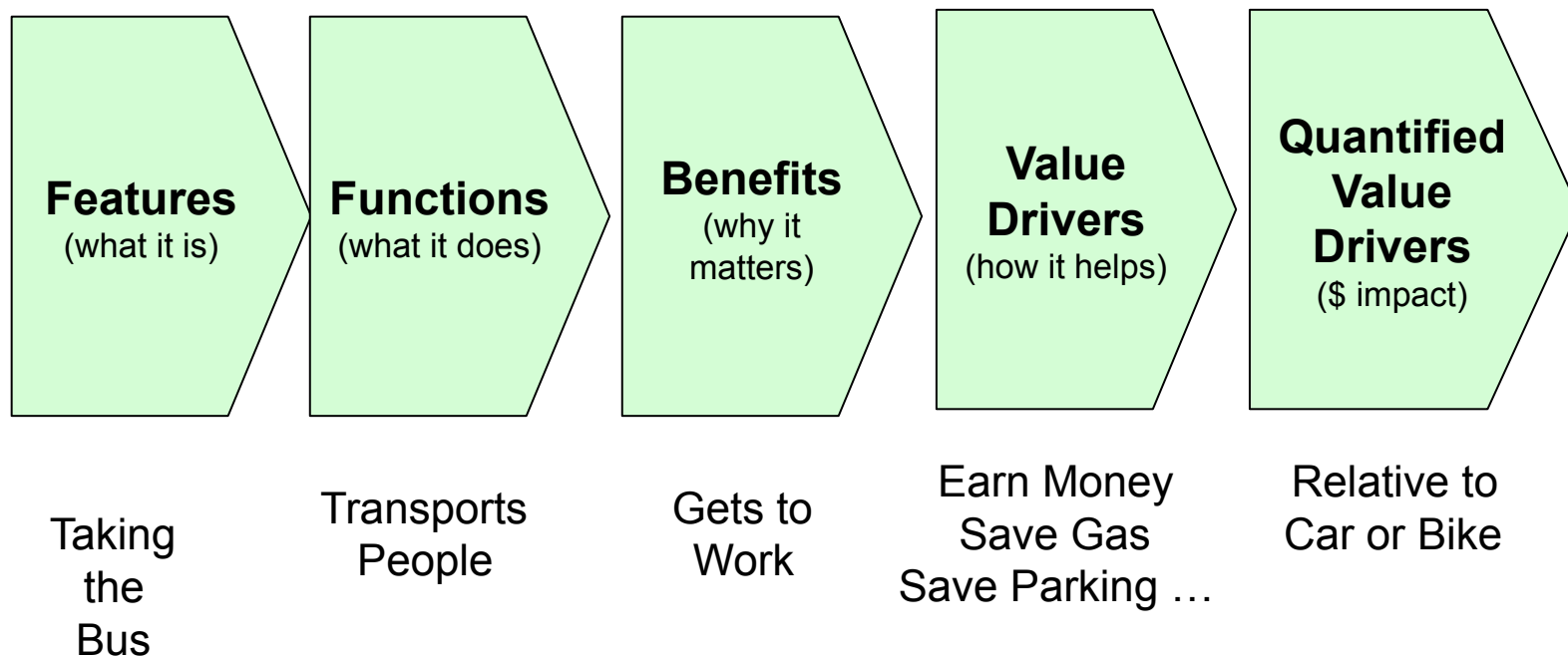
## Disruptive Innovations

# Impact on pricing





# From Features to Value



**Quantified Value Drivers** have the biggest impact on price.

# What is value?



## Value is

For the **customer**

(has nothing to do with cost of your inputs or how cool you are)

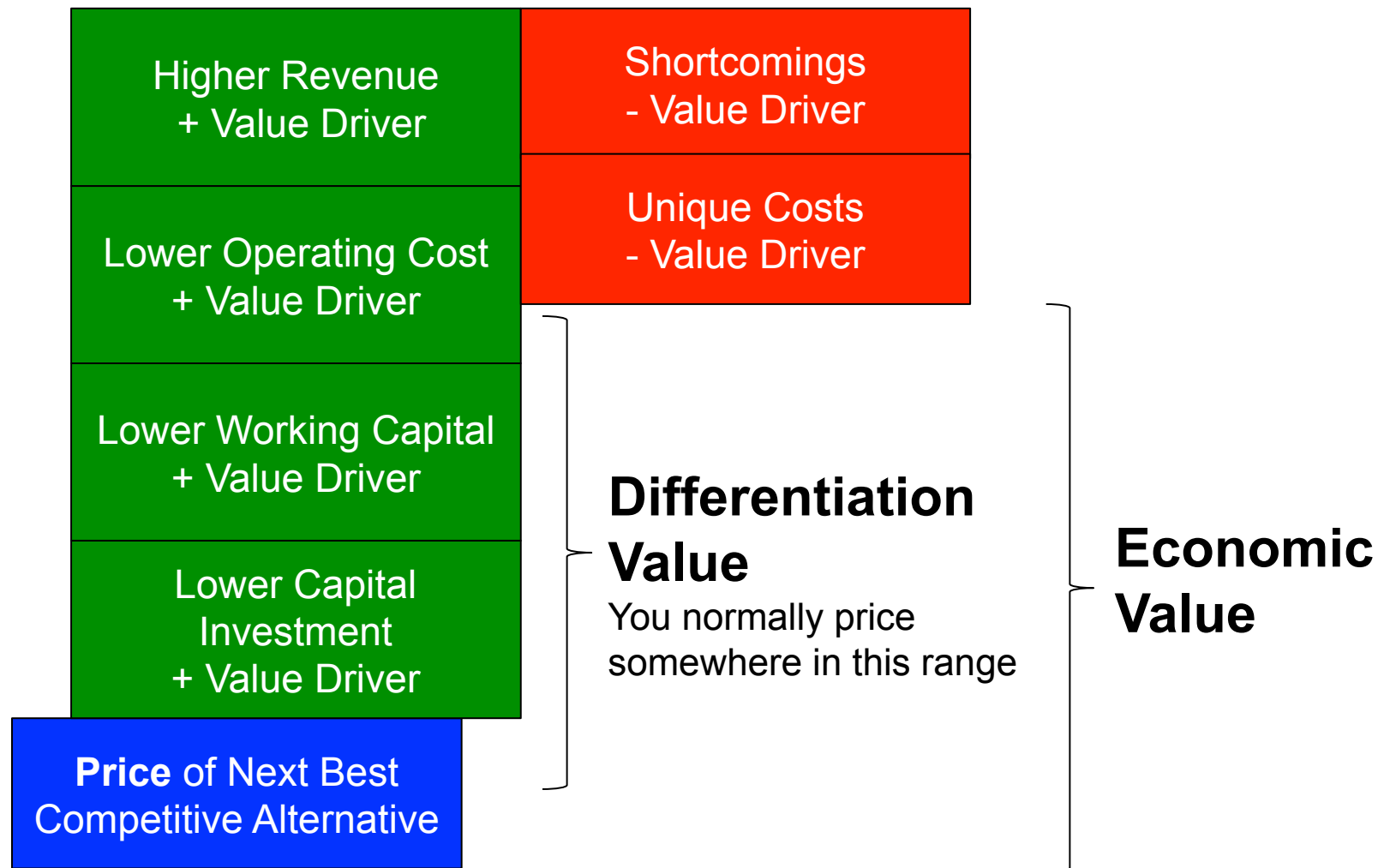
Relative to an **alternative**

(there is always an alternative – even if it is ‘doing nothing’)

**Economic** (quantifiable in dollars) and **Emotional**

(in some cases there are other important ways to quantify value, like Quality Adjusted Life Years in healthcare)

# Value modeling



# Types of value drivers

## Revenue

- Allow your customer to access a new market
- Give a customer a way to increase prices
- Improve pipeline metrics for your customer

## OpEx

- Make a process more efficient
- Reduce use of an expensive input
- Substitute a cheaper input

## CapEx

- Make a process more efficient so a new plant investment can be deferred

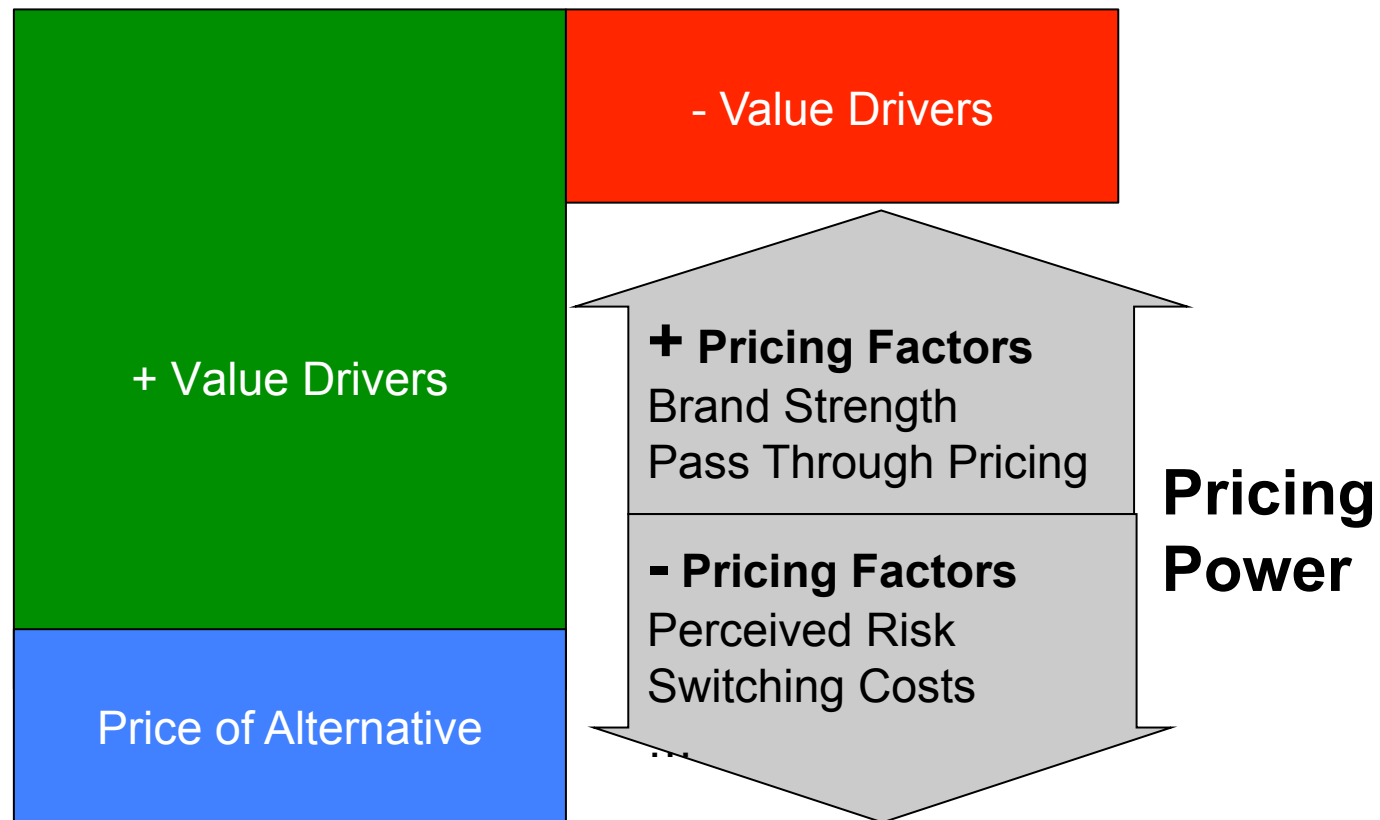
## Working Capital

- Reduce inventory
- Accelerate inventory turns
- Reduce accounts receivable

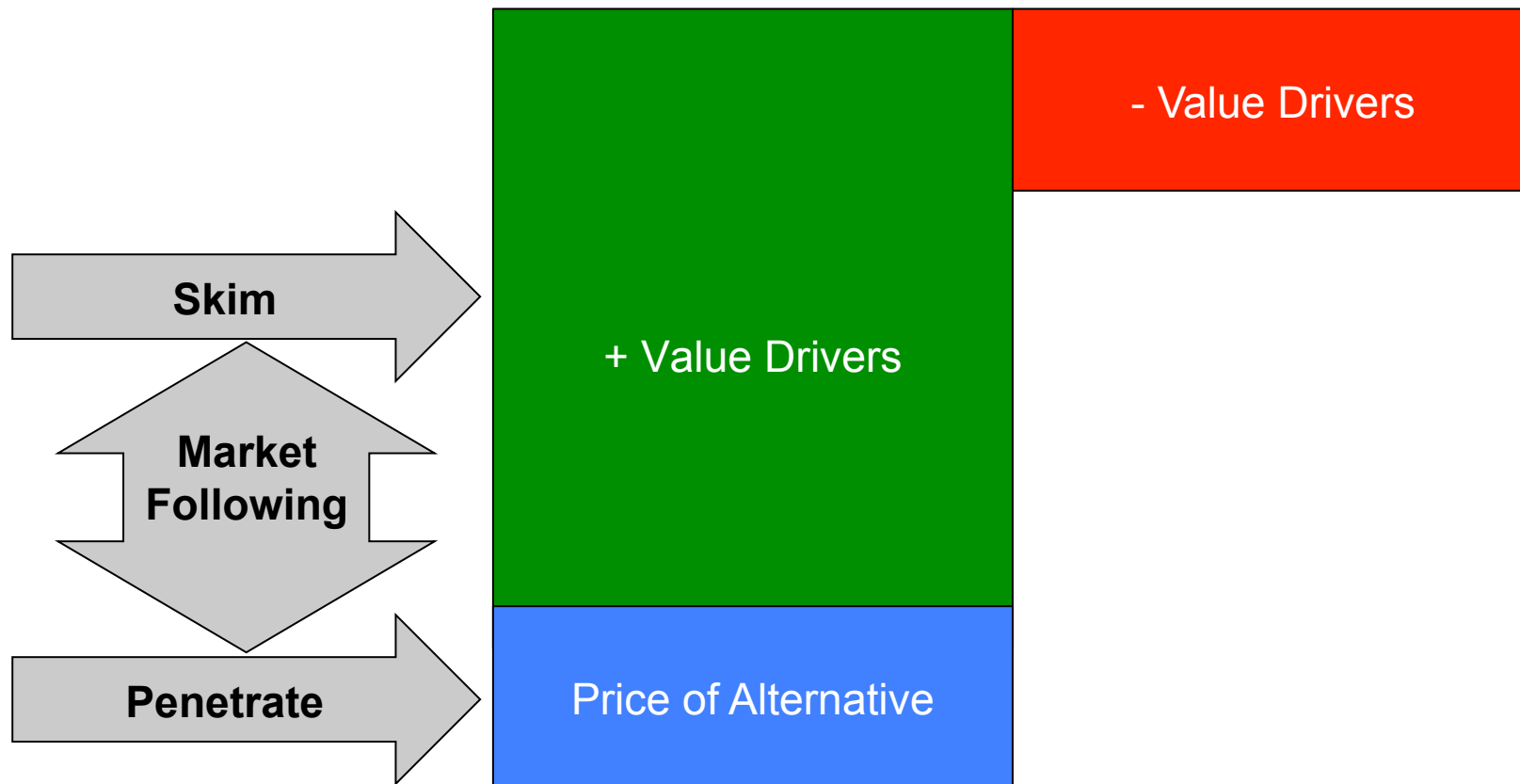
Any positive value driver can also be a negative value driver!

Two other classes of value driver are 'risk reduction' and 'providing an option.'

# Pricing power



# Pricing strategies



# What strategy?

**Skim**

Charge as much as is fair  
Reinvest in innovation

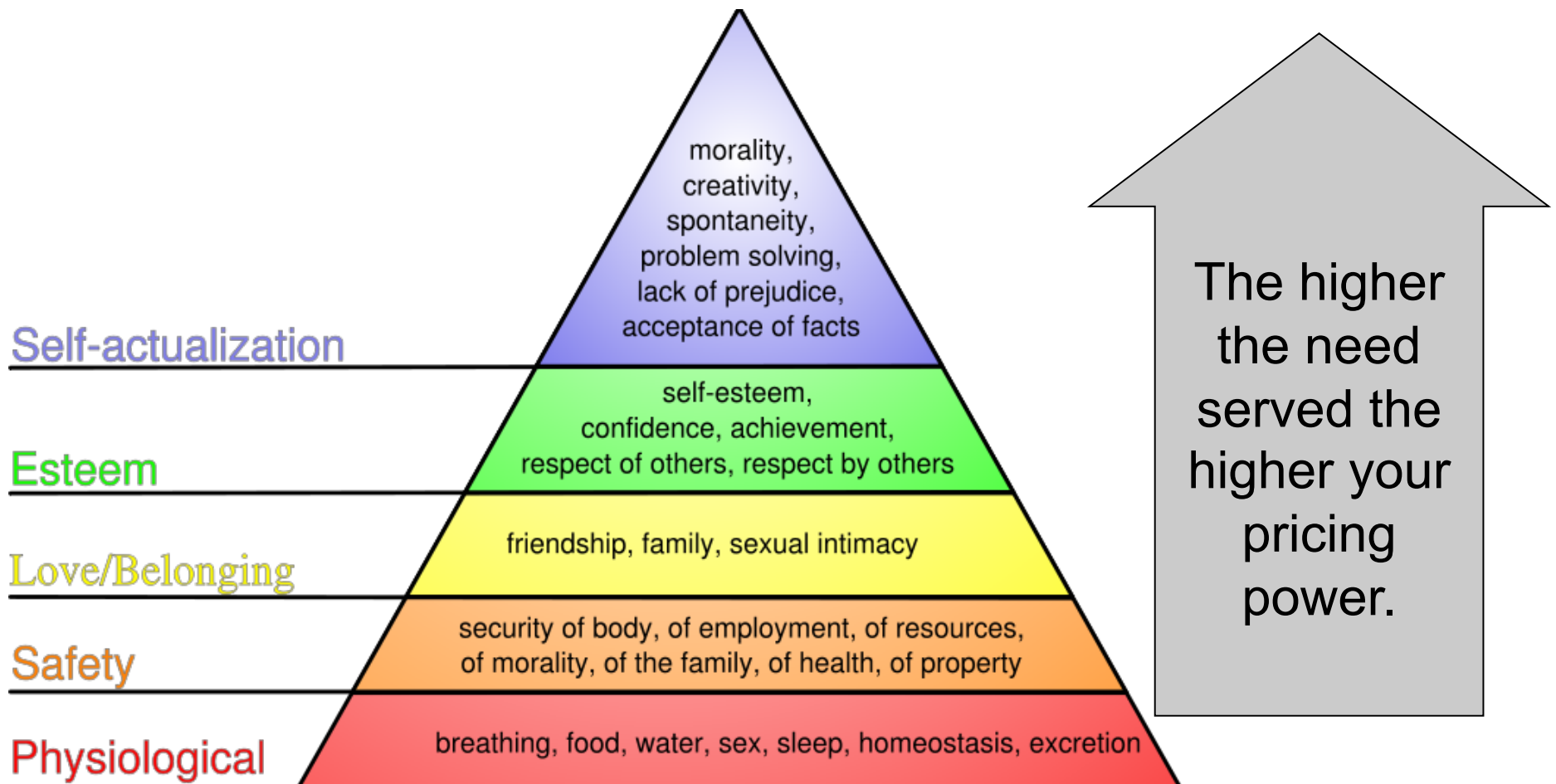
**Market  
Following**

Follow a market leader ( + or - )  
Track a market input  
( interest rates, energy prices)

**Penetrate**

Price as low as possible  
Grab market share

# Emotions matter



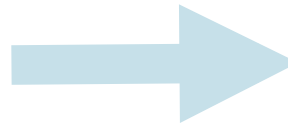


# The value metric



The unit of use by which  
a customer gets value  
from your offer

# Liters or square meters?



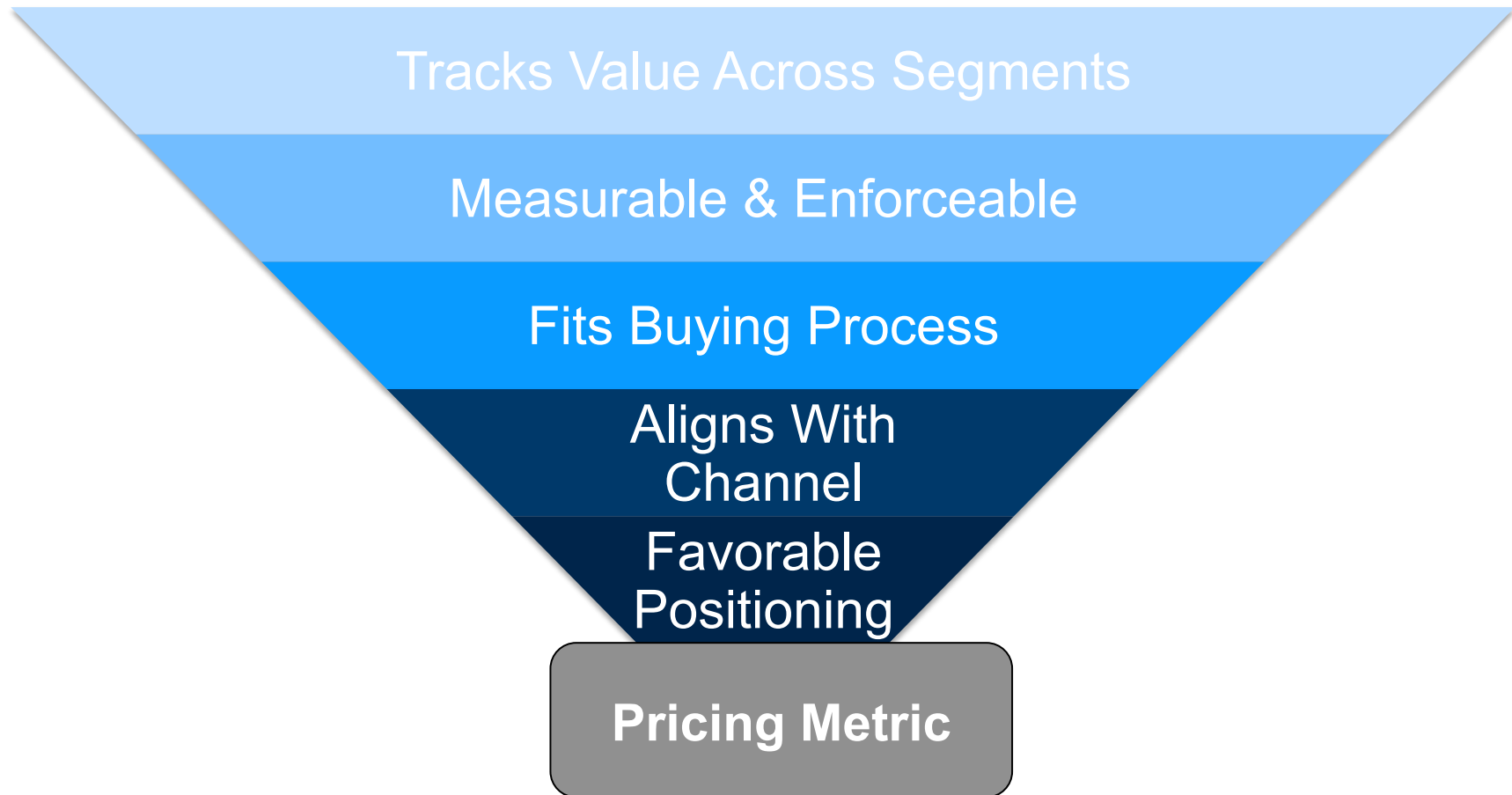
# **Value metric innovation**

**The ability to instrument cloud software to measure use and to integrate with other systems opens many new possible pricing metrics**

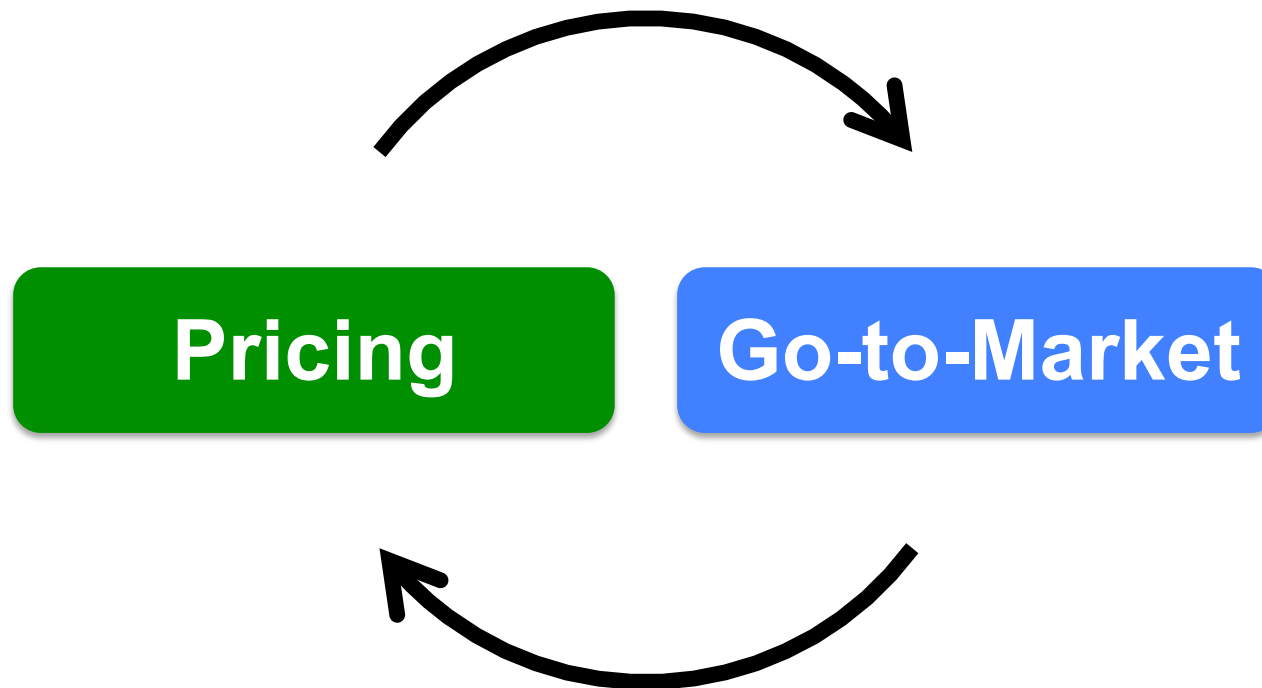
**The Internet of things makes it possible to extend this to the physical world**

**We are in the golden age of pricing metric innovation**

# Choosing a pricing metric



# Pricing and Go-to-Market



# What is a good segment?

## **Customers get value in the same way**

- Can market using the same value propositions
- Can use the same pricing metrics

## **Customers have the same buying process**

- Easier to test the segment
- Easier to design and optimize your sales process

## **Customers reference each other**

- Messages get amplified

# What is a good segment?



	Buy Online		Buy from Person	
	Free Trial	Demo	On Phone	Face 2 Face
More Leads	XXX	XX	X	X
More Demos		XXX	XX	
More Conversions	XXX			
Fewer Meetings			XX	XXX

# What is a good segment?

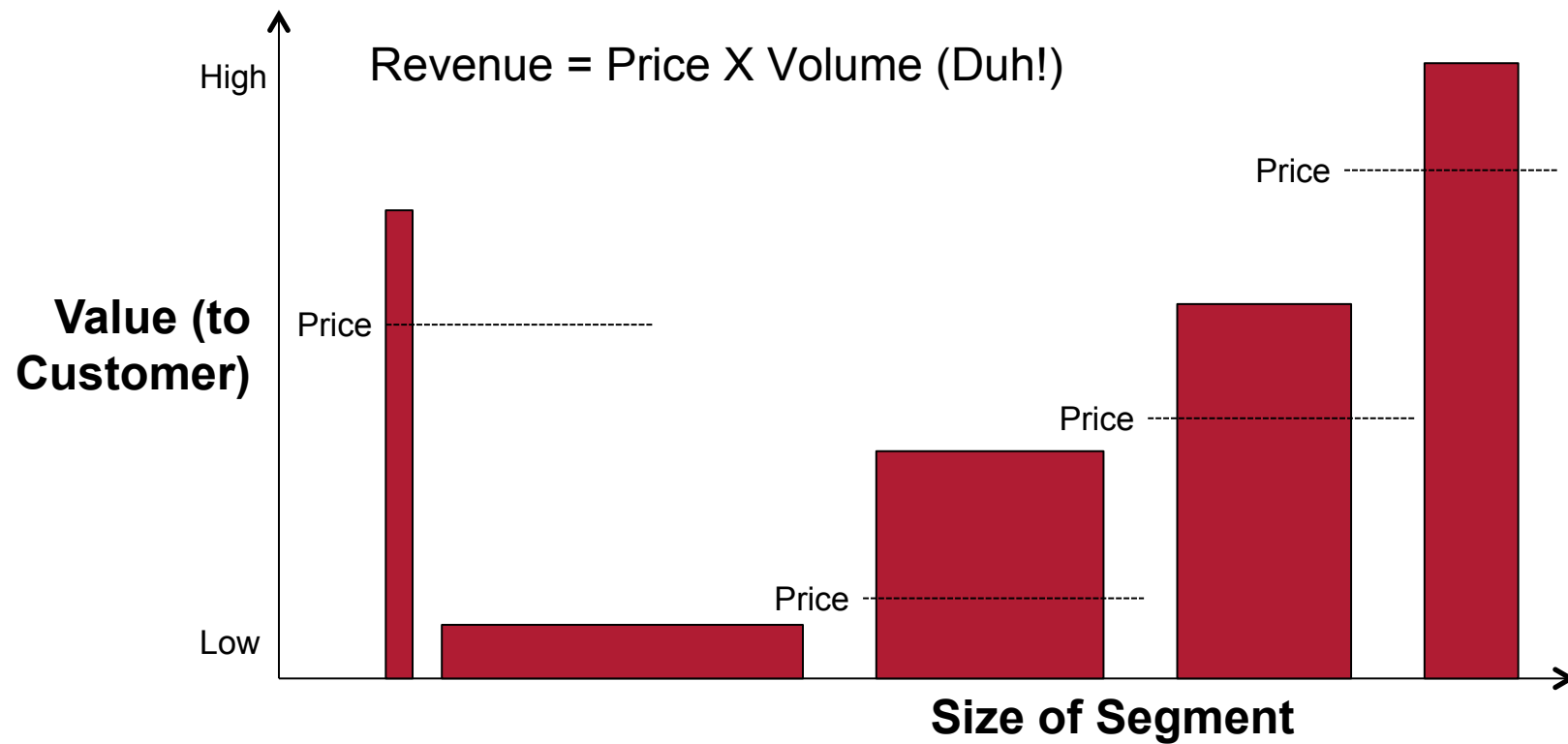


	Buy Online		Buy from Person	
	Free Trial	Demo	On Phone	Face 2 Face
More Leads	XXX	XX	X	X
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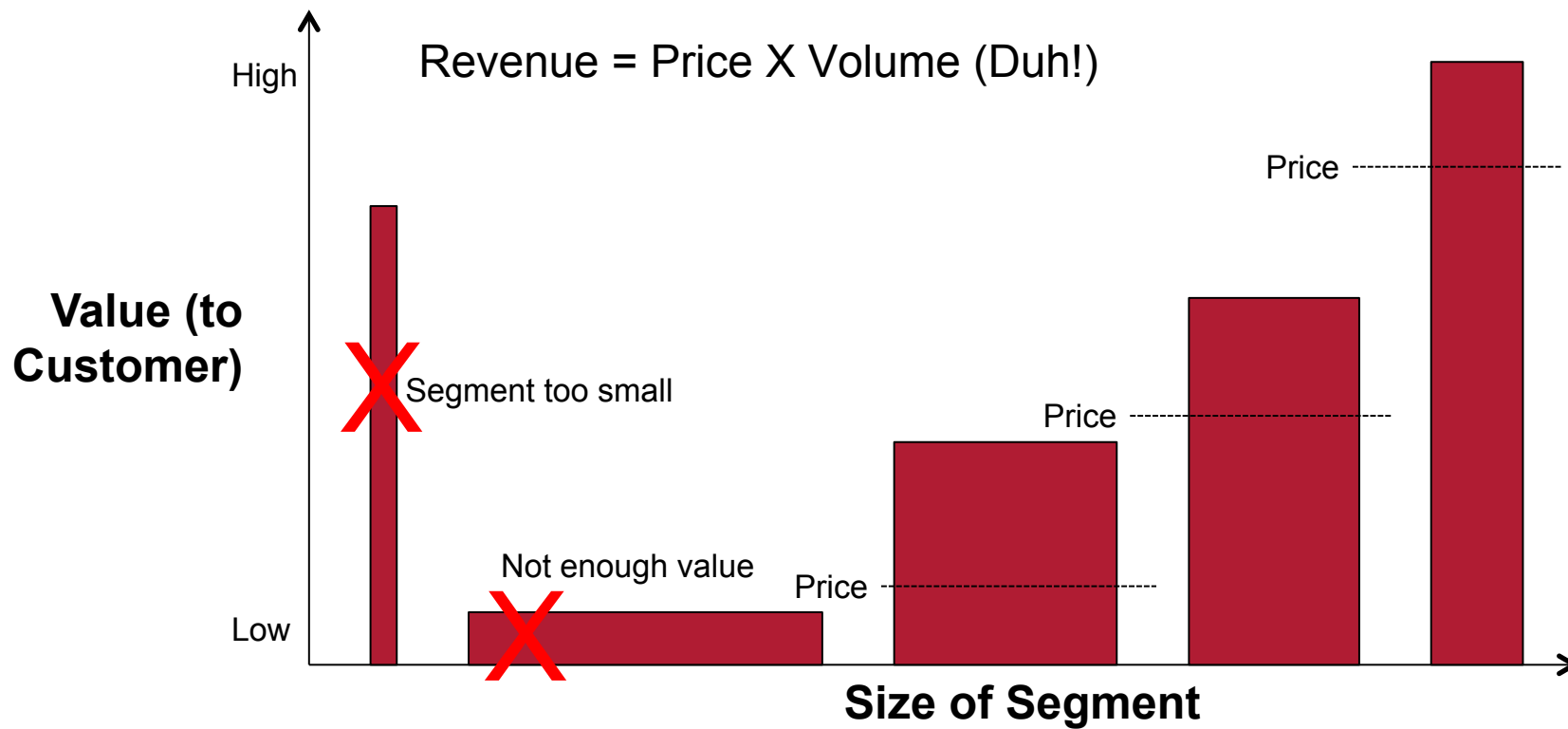
Your buyers talk to each other: get word of mouth working



# What is a good segment?

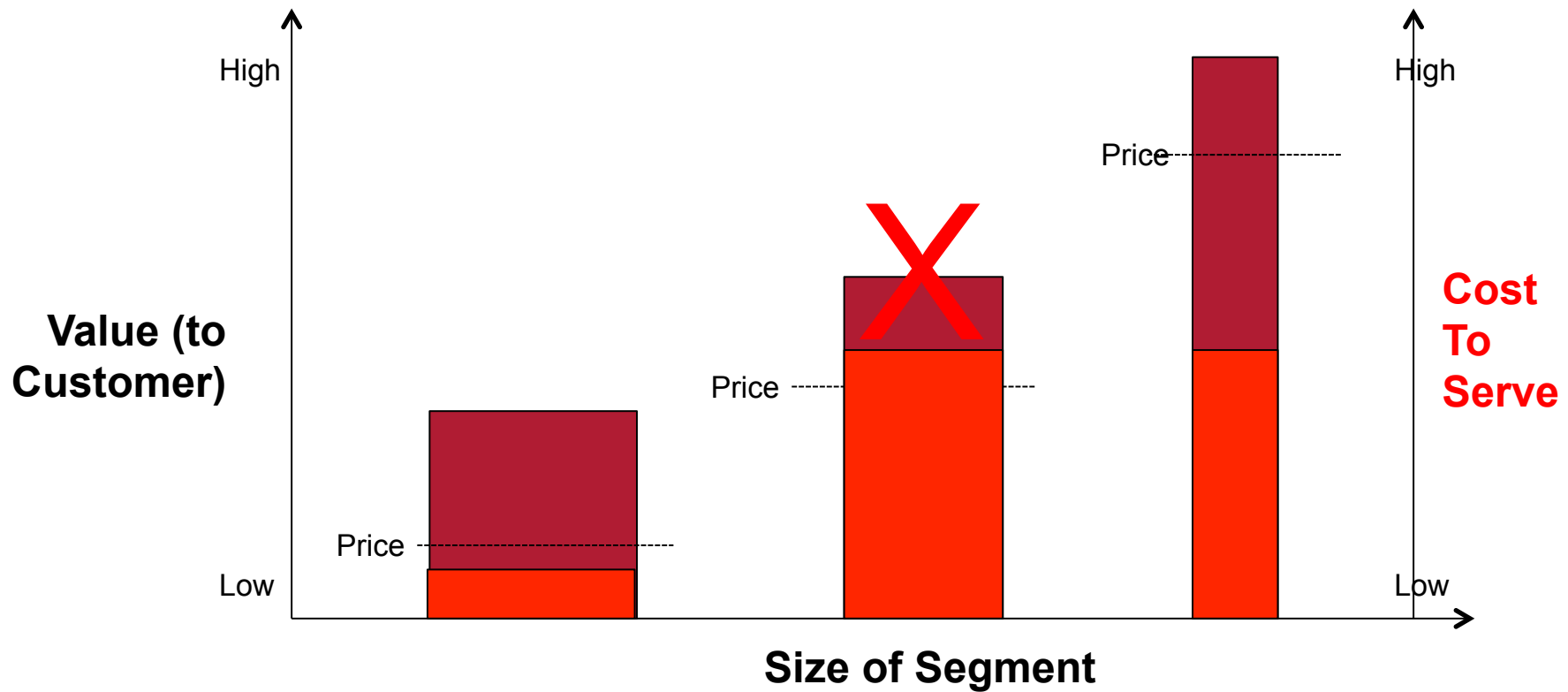


# Eliminating the obvious



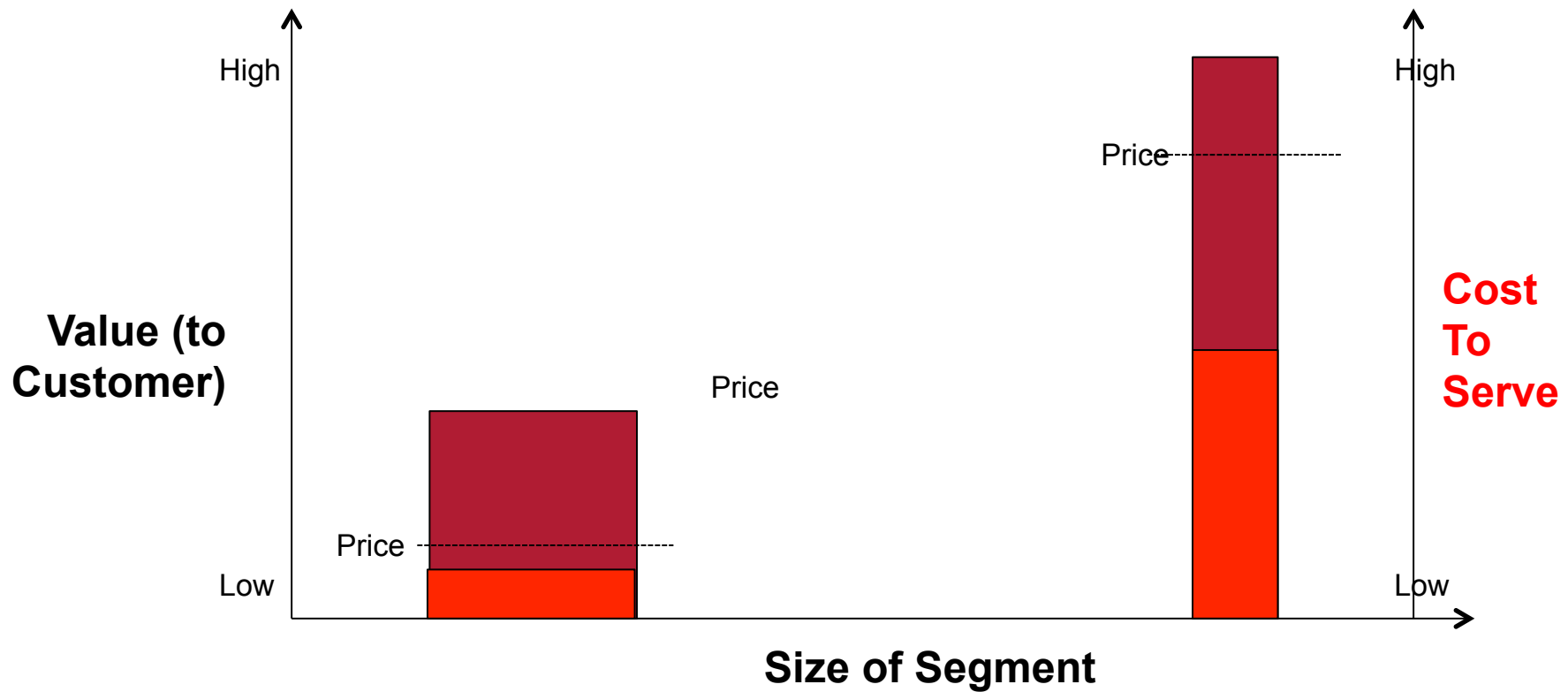
# Costs sneak back in

$$\text{Profit} = \text{Price} \times \text{Volume} - \text{Cost to Serve}$$



# What is your pricing strategy?

$$\text{Profit} = \text{Price} \times \text{Volume} - \text{Cost to Serve}$$



# Back to basics



1. Understand how you create value
2. Define segment = Value x Buying Process x Reference
3. Test your customer acquisition costs and cost to serve  
(This is where costs come in, when you select segments)
4. Choose your beachhead (market entry) segment

# Pricing checklist



- ☐ Disruptive or sustaining? Why?
- ☐ What part of the adoption cycle are you trying to sell to?
- ☐ Do you understand how different types of customer get value?
- ☐ Have you used that understanding to segment the market?
- ☐ Have you crafted an offer for a specific segment?
- ☐ Do you know your value metric for that segment?
- ☐ Have you found a pricing metric that tracks the value metric?  
(and makes it hard for incumbents to attack you)
- ☐ Do you know what pricing factors effect you?  
(and do you have a plan to enhance the positive, eliminate the negative)
- ☐ What is your whole product solution? What will you bundle?
- ☐ Have you decided on a pricing strategy? Why?  
(skim, penetrate, market following)
- ☐ Does your pricing strategy align with your go-to-market strategy? How?
- ☐ For software, how will you leverage a 'free' offer?

## Some resources



[Professional Pricing Society on LinkedIn](#)

[The SaaS Pricing Page Blueprint](#) by Patrick Campbell

[LeveragePoint Blog](#) a good source of current  
information on value modeling

Steven Forth posts on [OpenView Labs](#)

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