

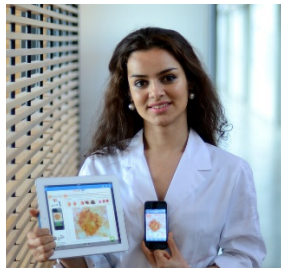
Pricing and Innovation



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

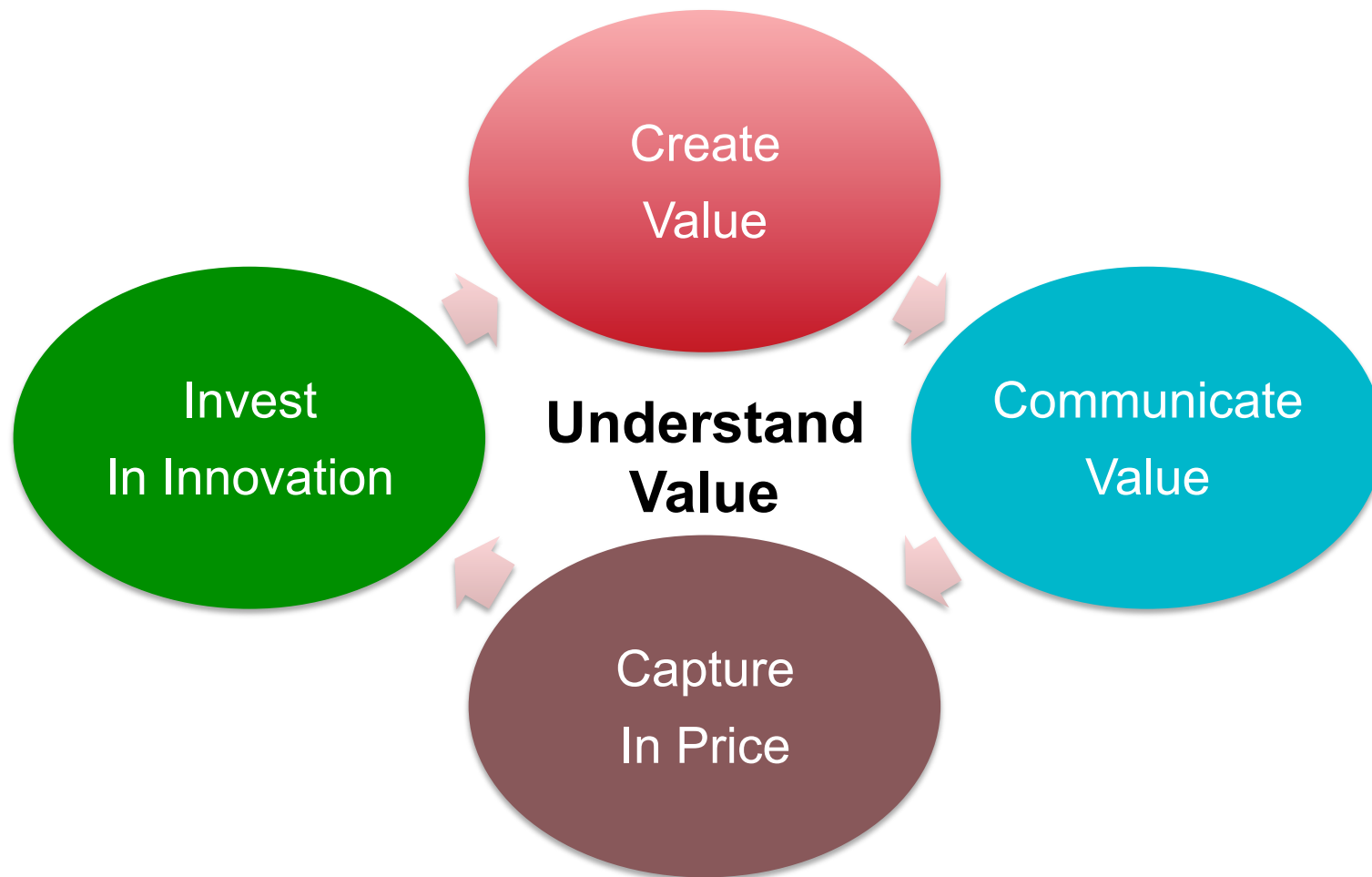
Consultant on innovation, pricing and design

- 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

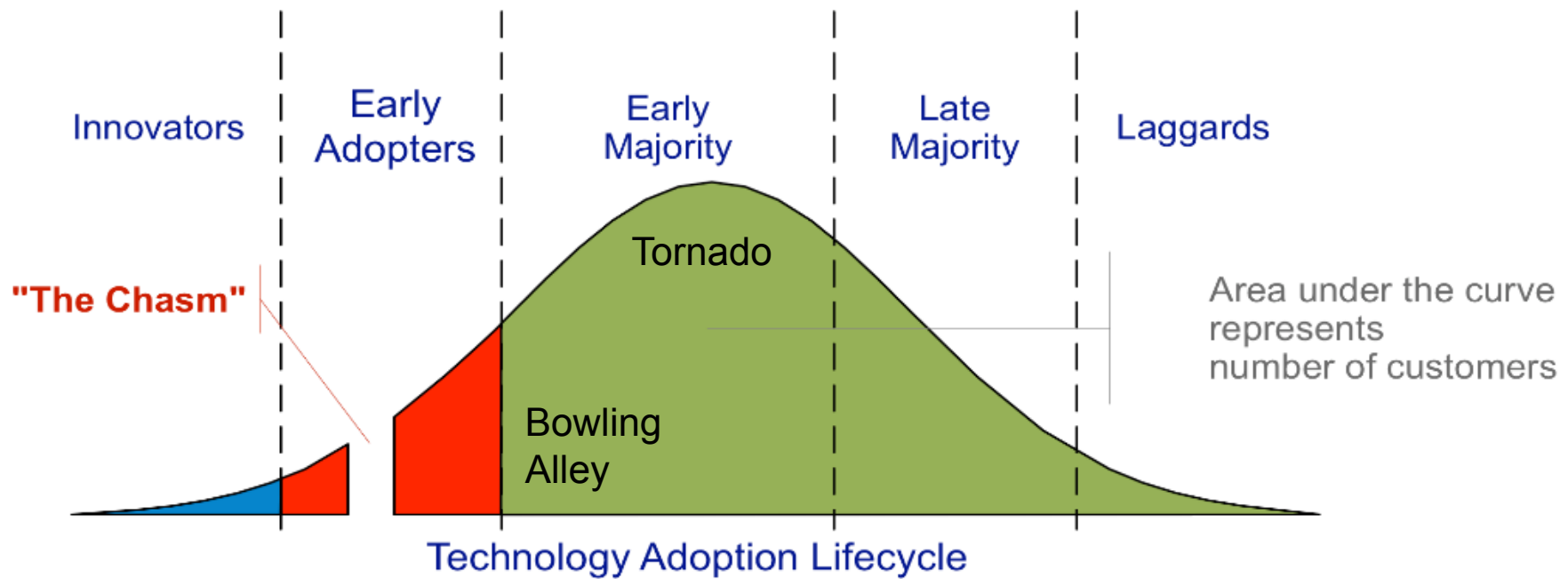


Compelling



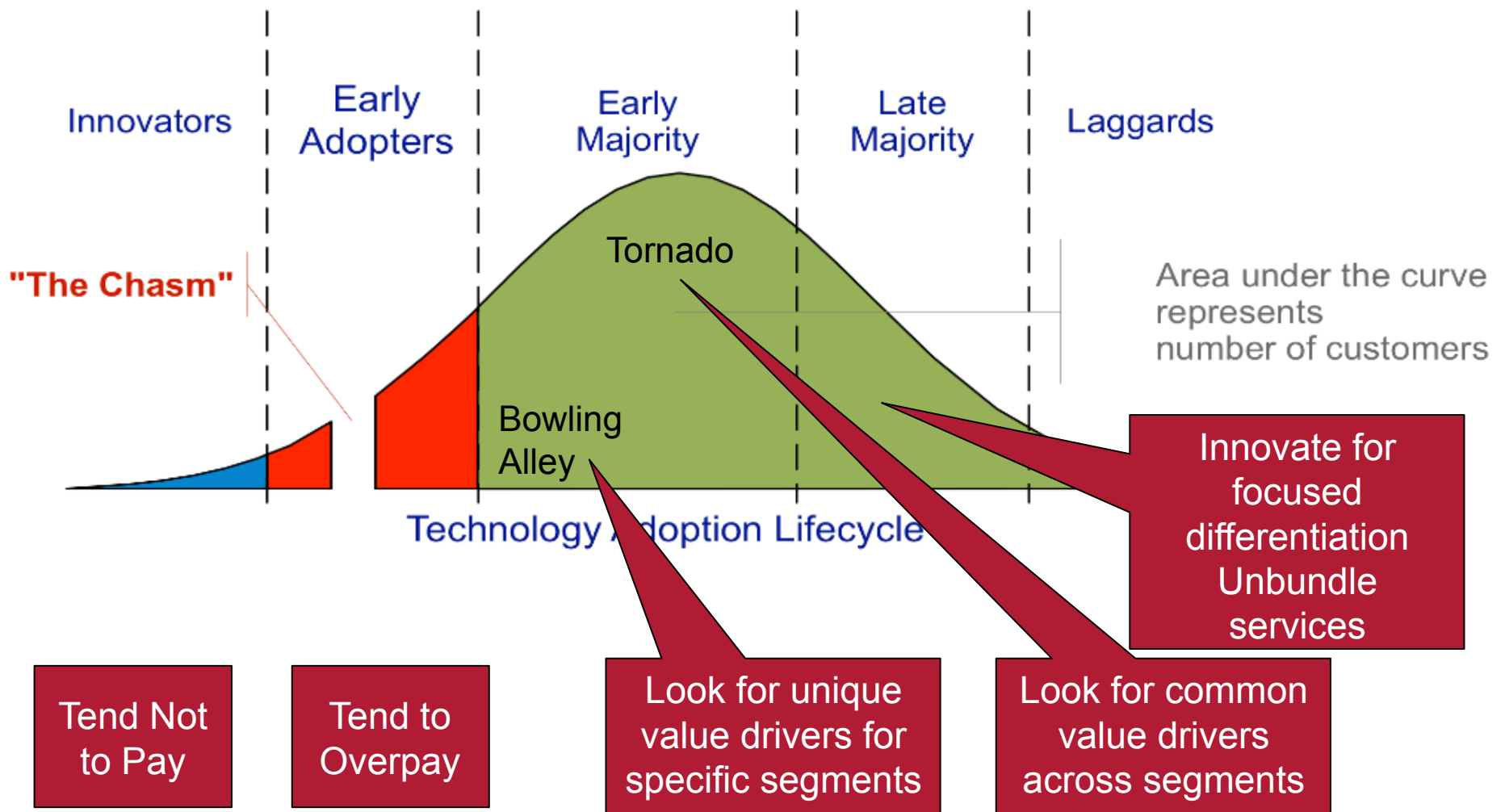
Moore's technology adoption cycle

Sustaining Innovations

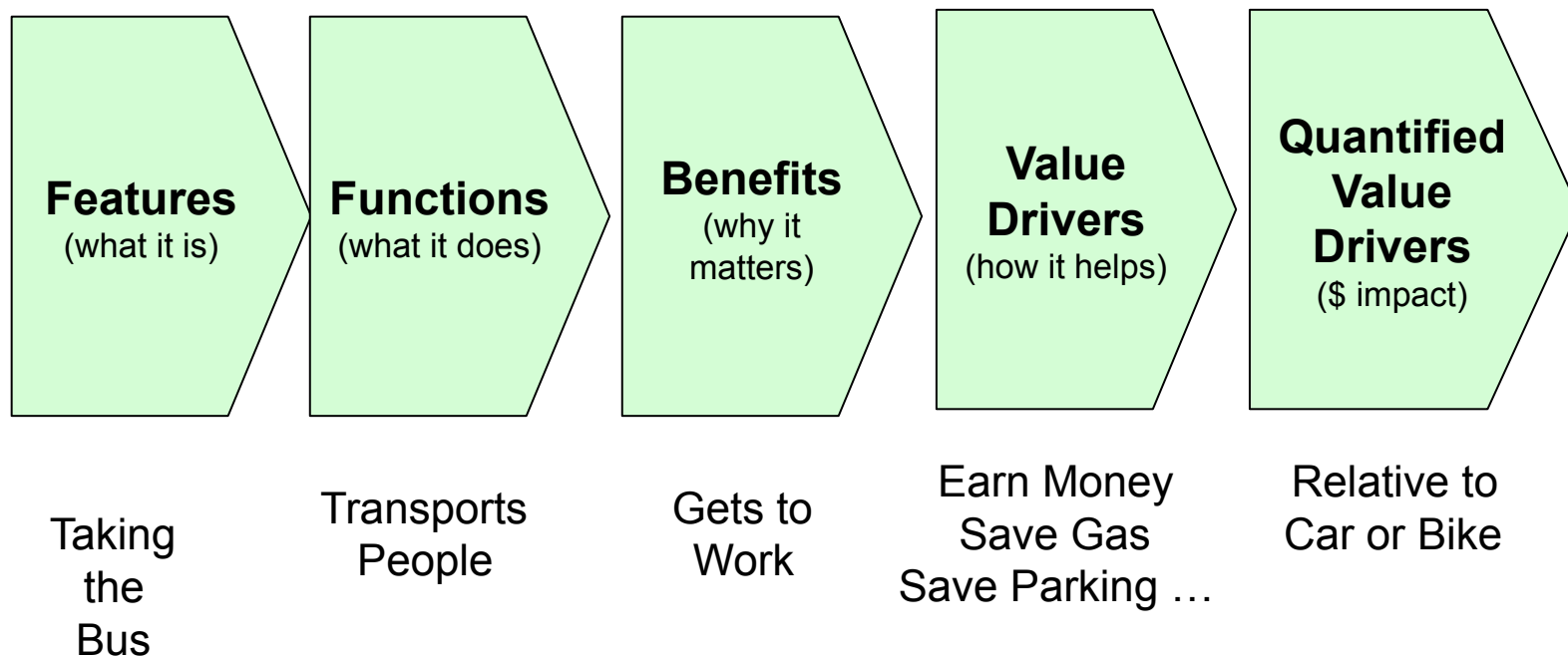


Disruptive Innovations

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)

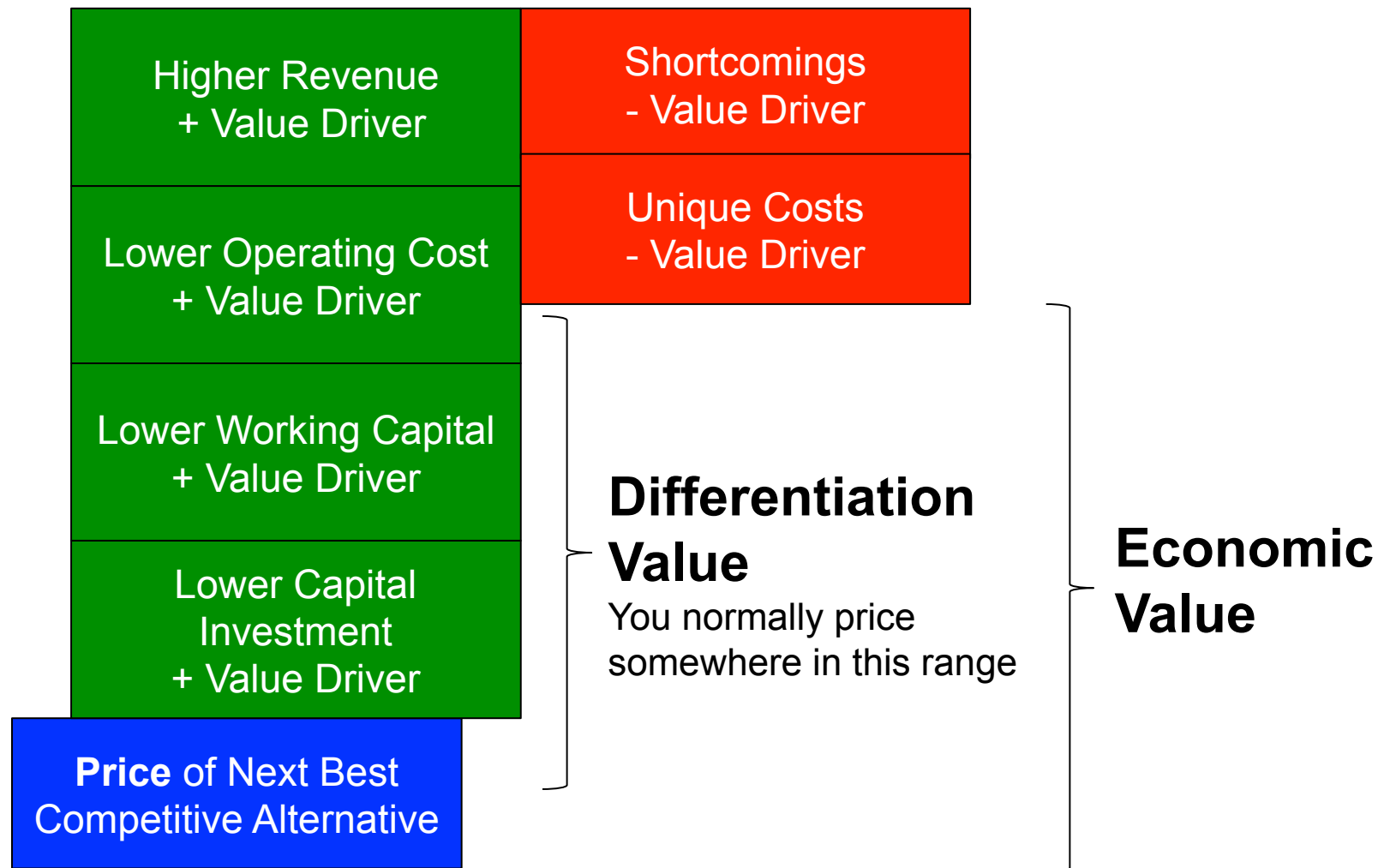
Relative to an **alternative**

(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

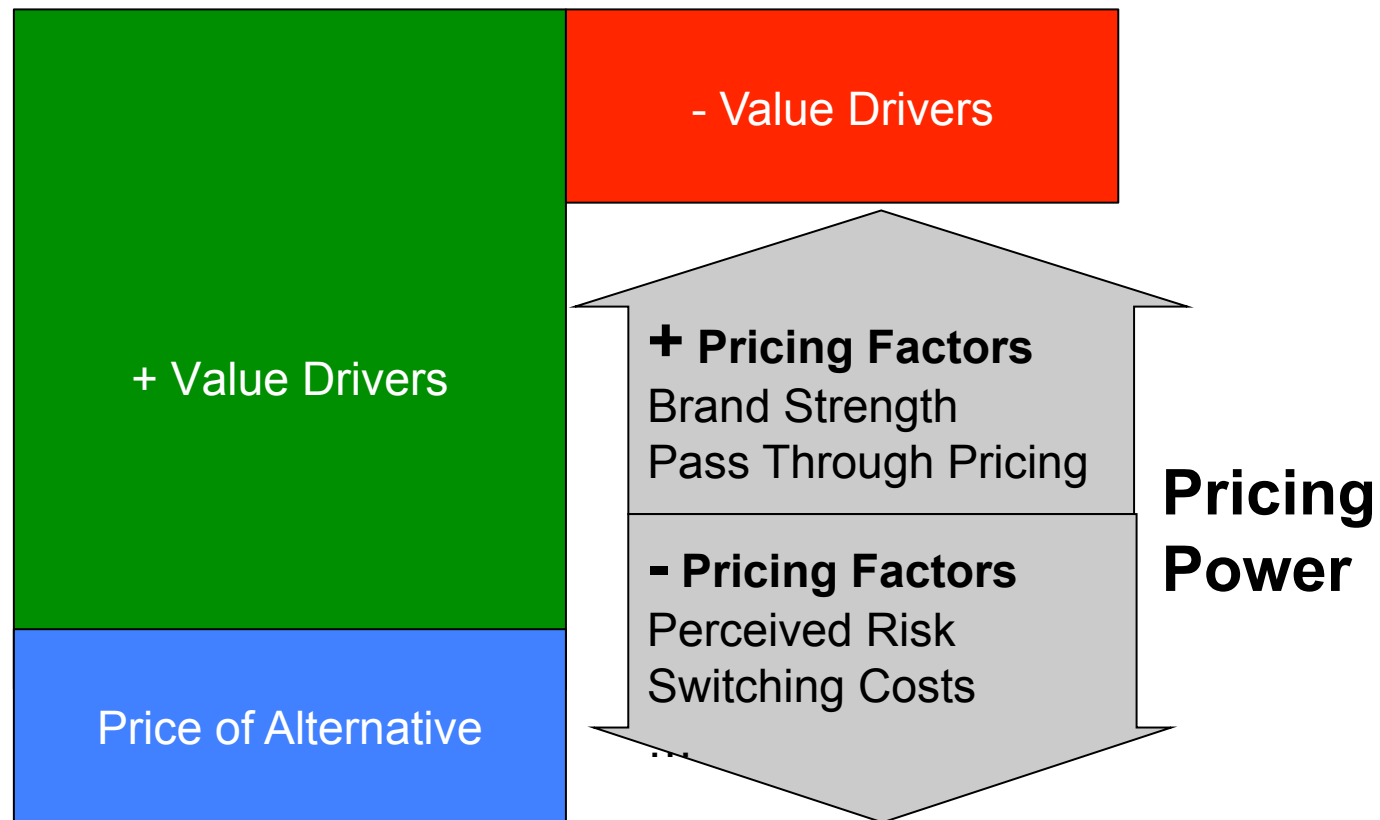
Working Capital

- Reduce inventory
- Accelerate inventory turns
- Reduce accounts receivable

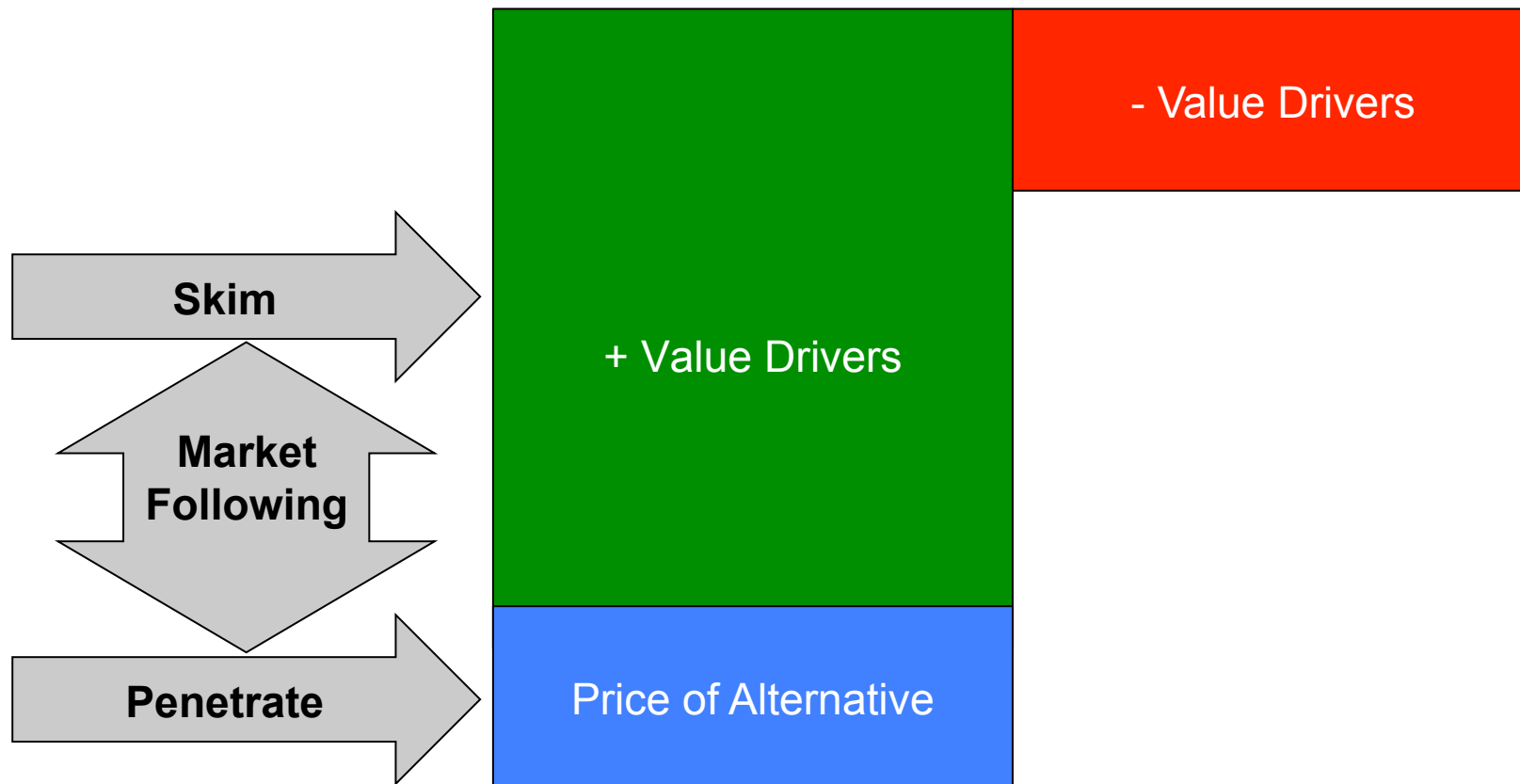
Any positive value driver can also be a negative value driver!

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**

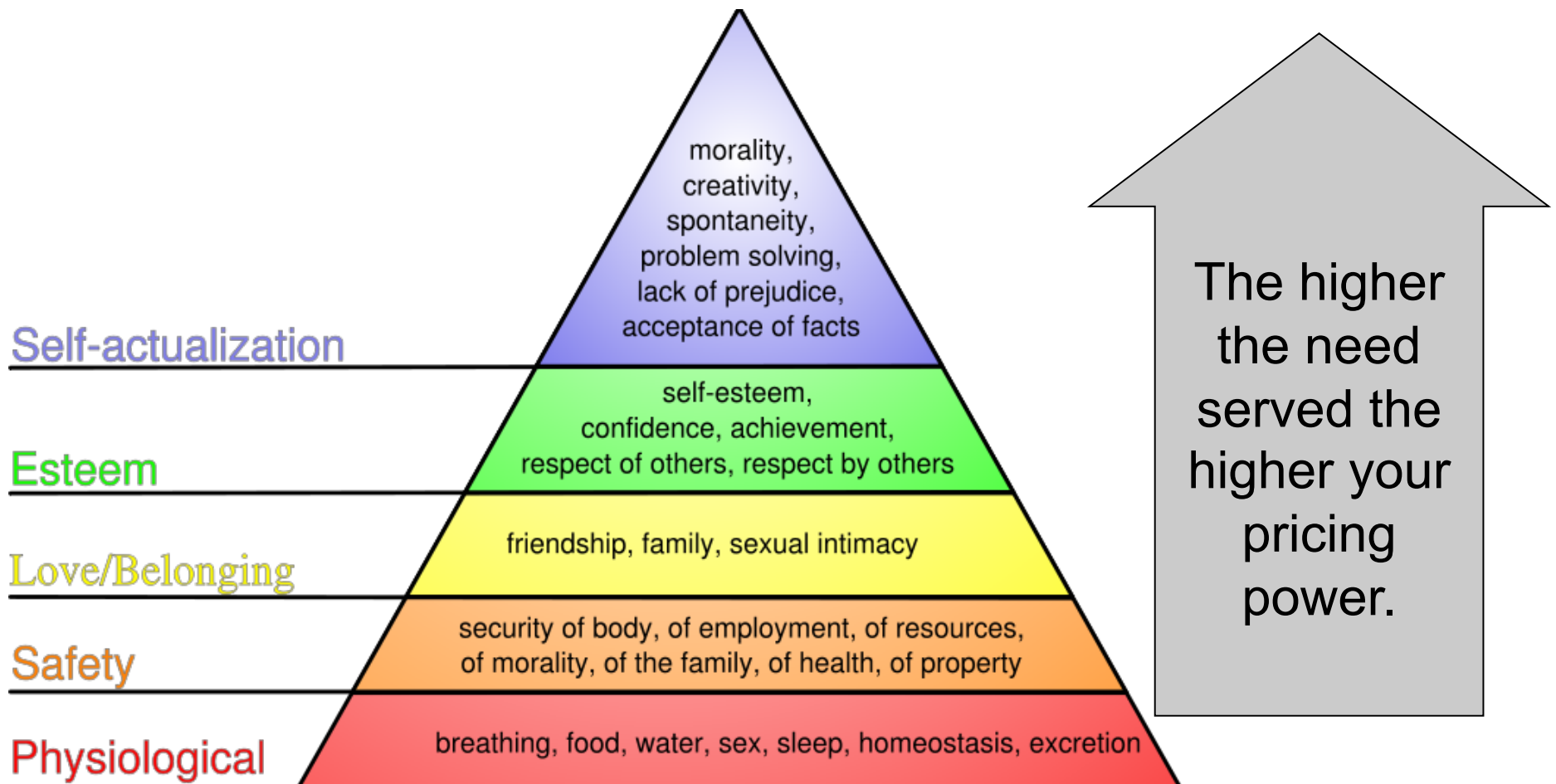
Follow a market leader (+ or -)
Track a market input
(interest rates, energy prices)



Penetrate

Price as low as possible
Grab market share

Emotions matter

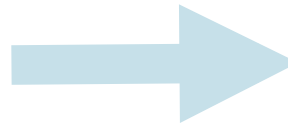


The value metric



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

Liters or square meters?



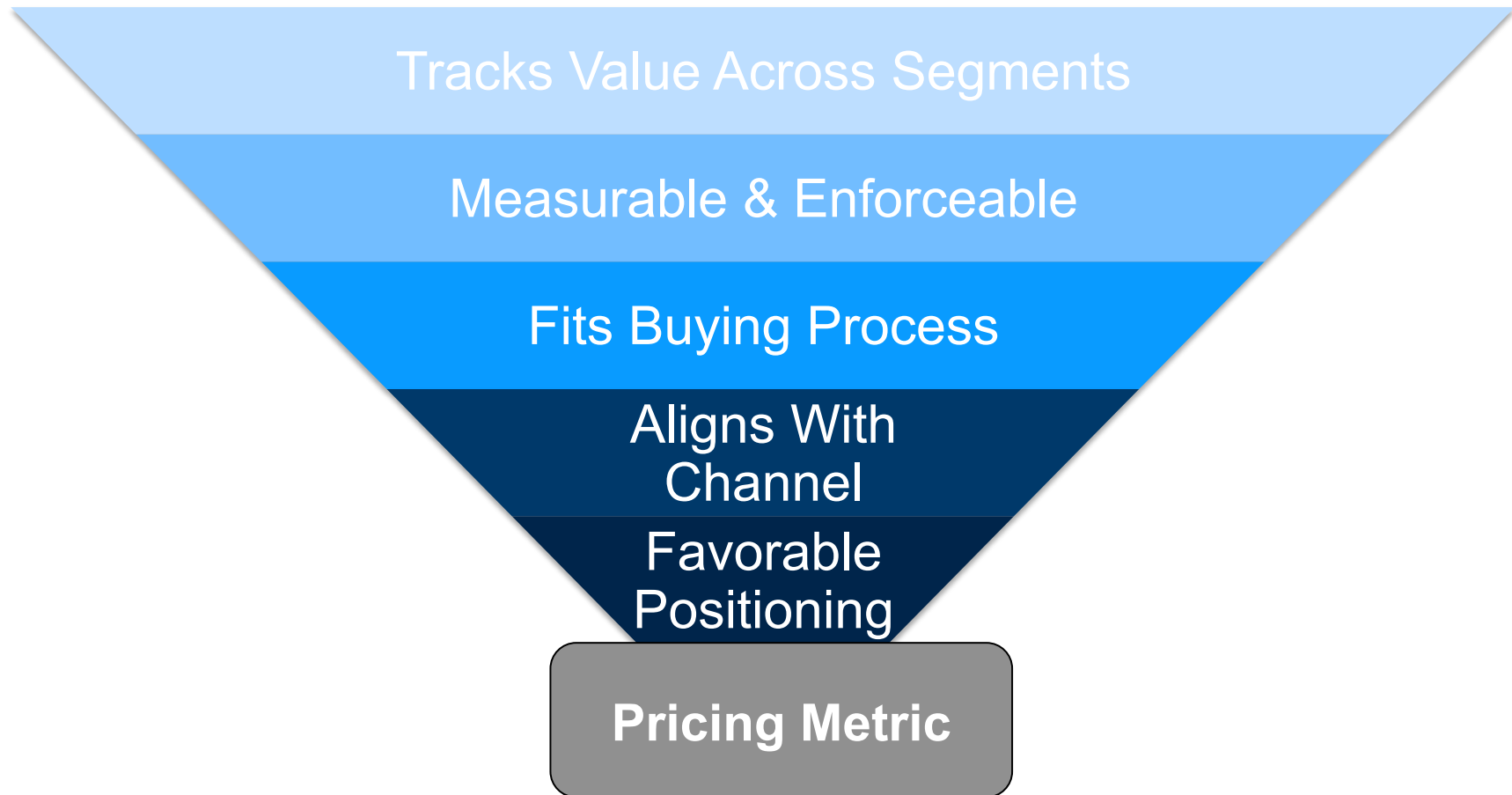
Value metric innovation

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

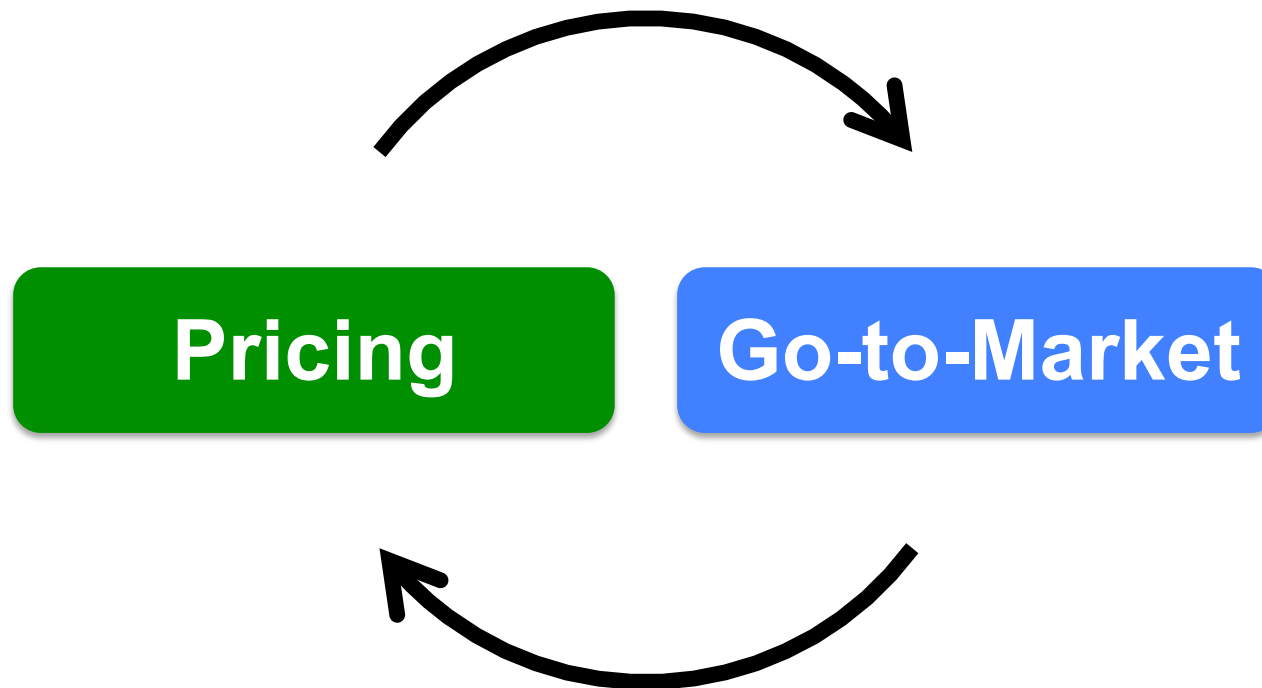
The Internet of things makes it possible to extend this to the physical world

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

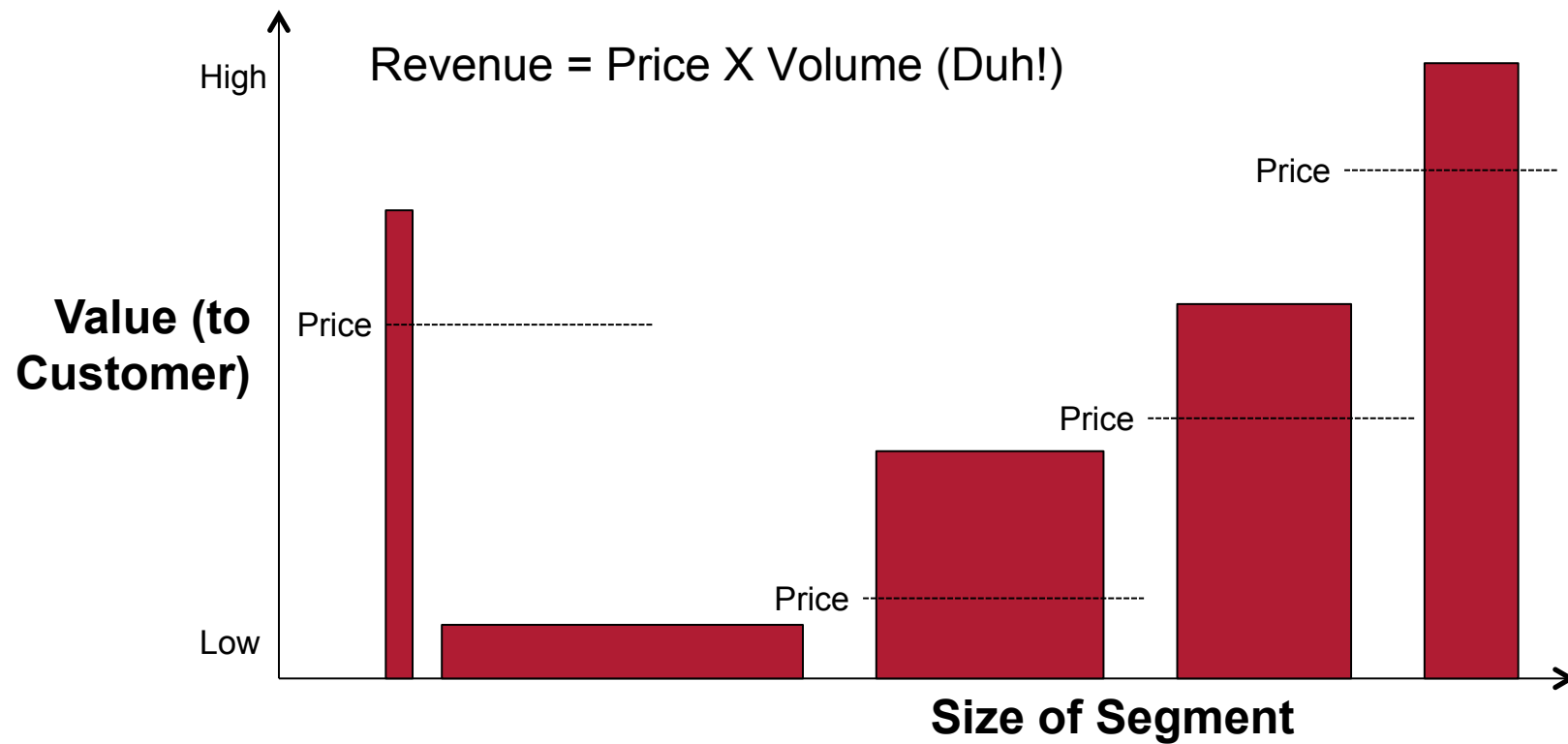
What is a good segment?



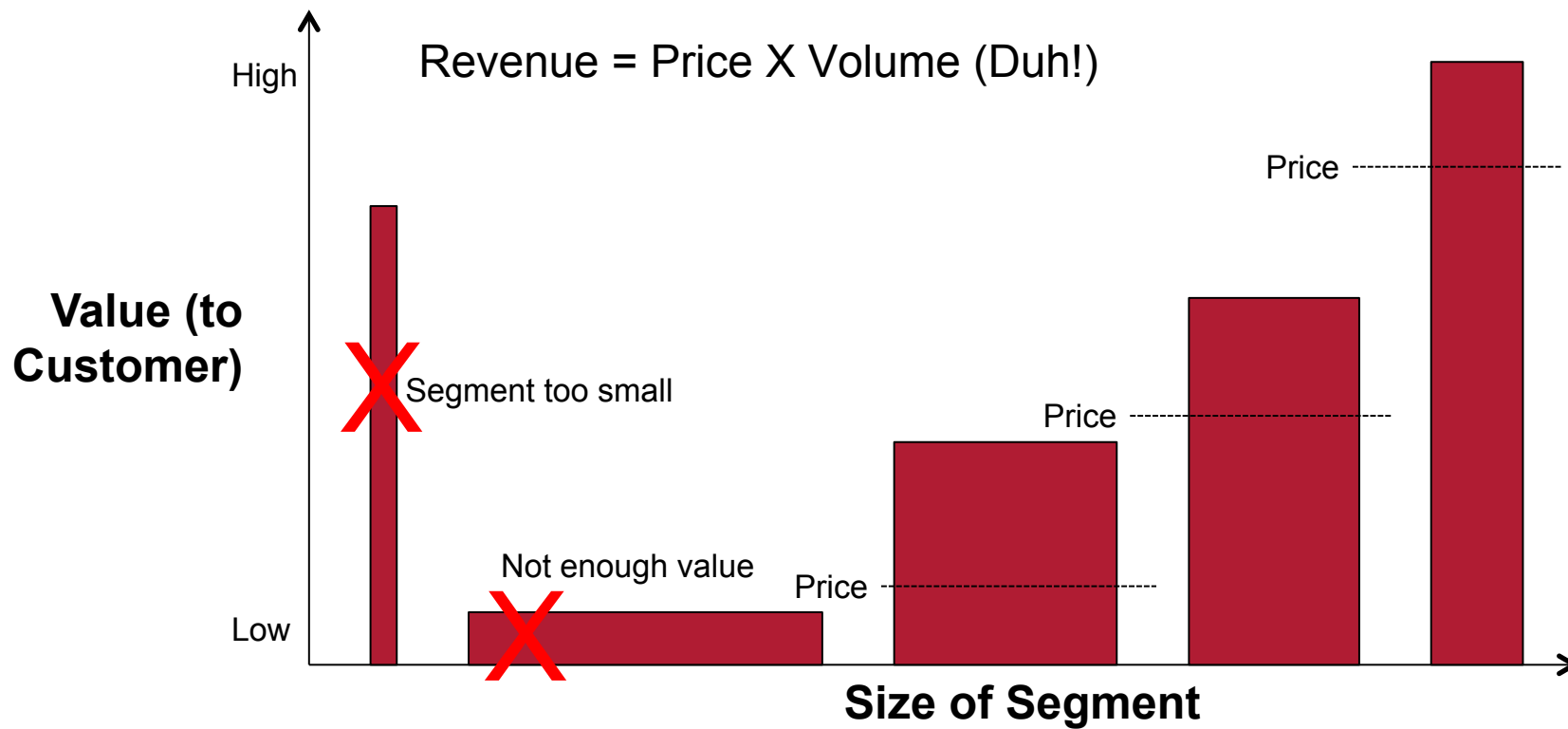
	Buy Online		Buy from Person	
	Free Trial	Demo	On Phone	Face 2 Face
More Leads	XXX	XX	X	X
More Demos		XXX	XX	
More Conversions	XXX			
Fewer Meetings			XX	XXX

Your buyers talk to each other: get word of mouth working

What is a good segment?

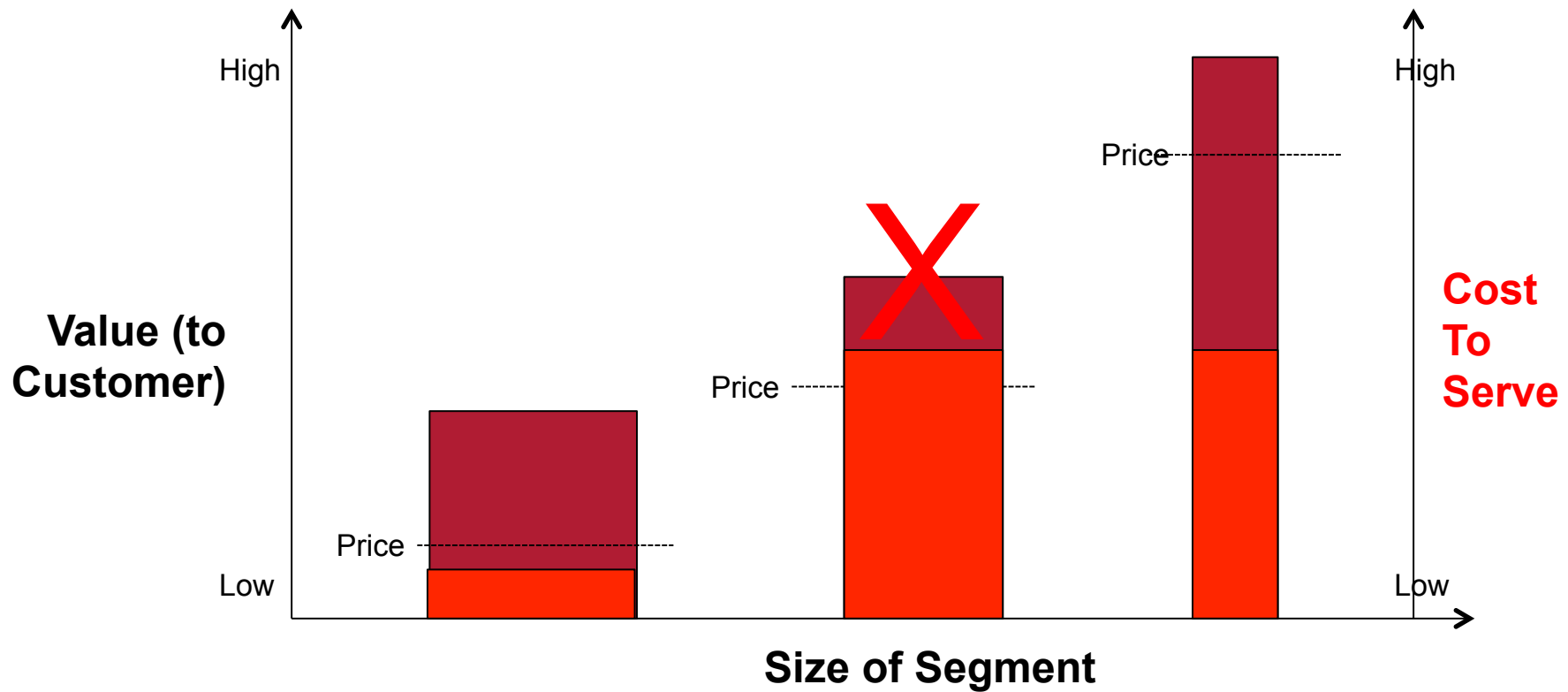


Eliminating the obvious



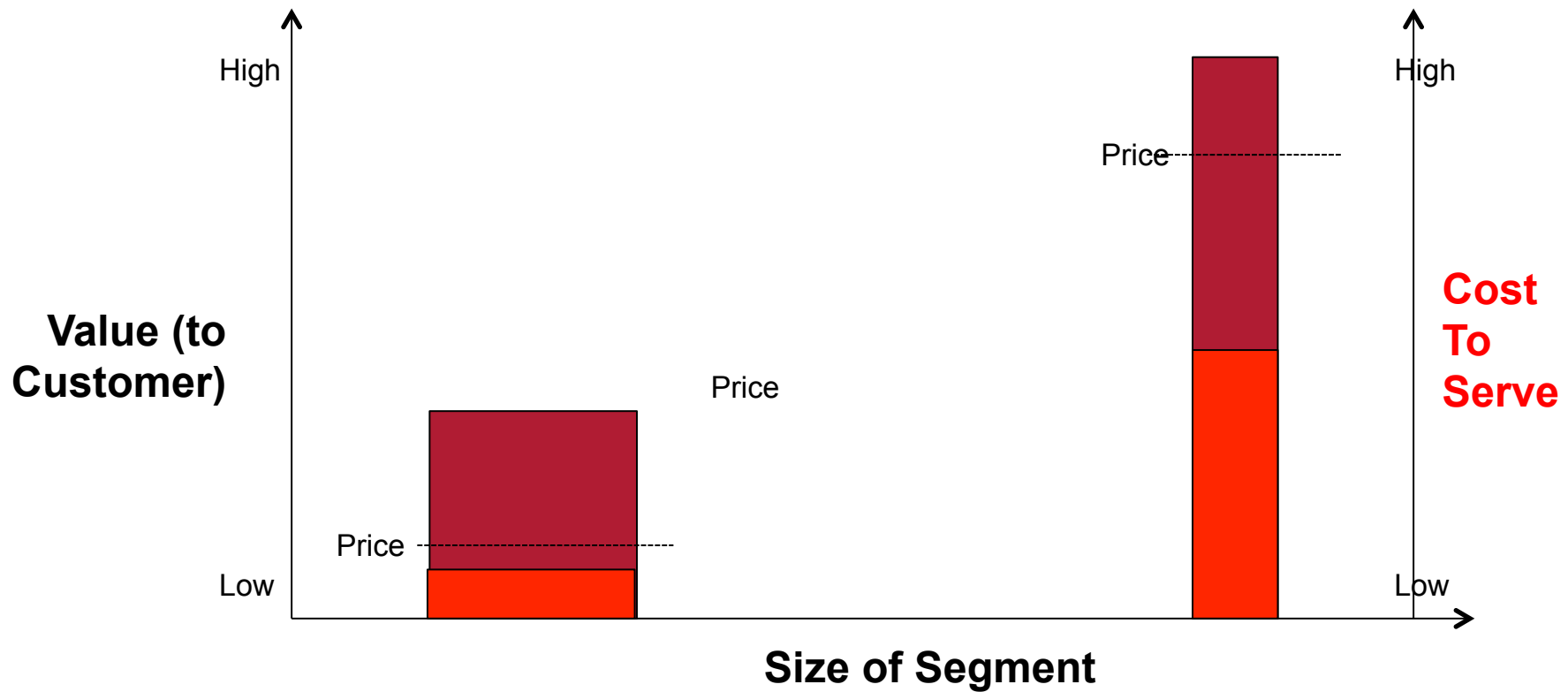
Costs sneak back in

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



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](#)

Steven Forth [Posts on New Ventures BC](#)

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