Pricing and Innovation

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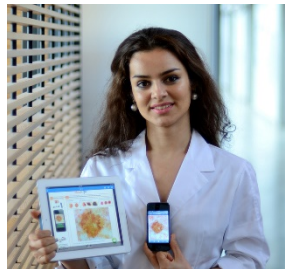
April 22, 2017
New Ventures BC

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About your presenter

Cofounder of eight companies (Boston, Tokyo, Vancouver)

- Most recently the cloud value management platform **LeveragePoint**

- the skill management and team building platform **TeamFit.co**

- and the pricing technology platform **Ibbaka**

Active angel investor (direct and through angel funds)

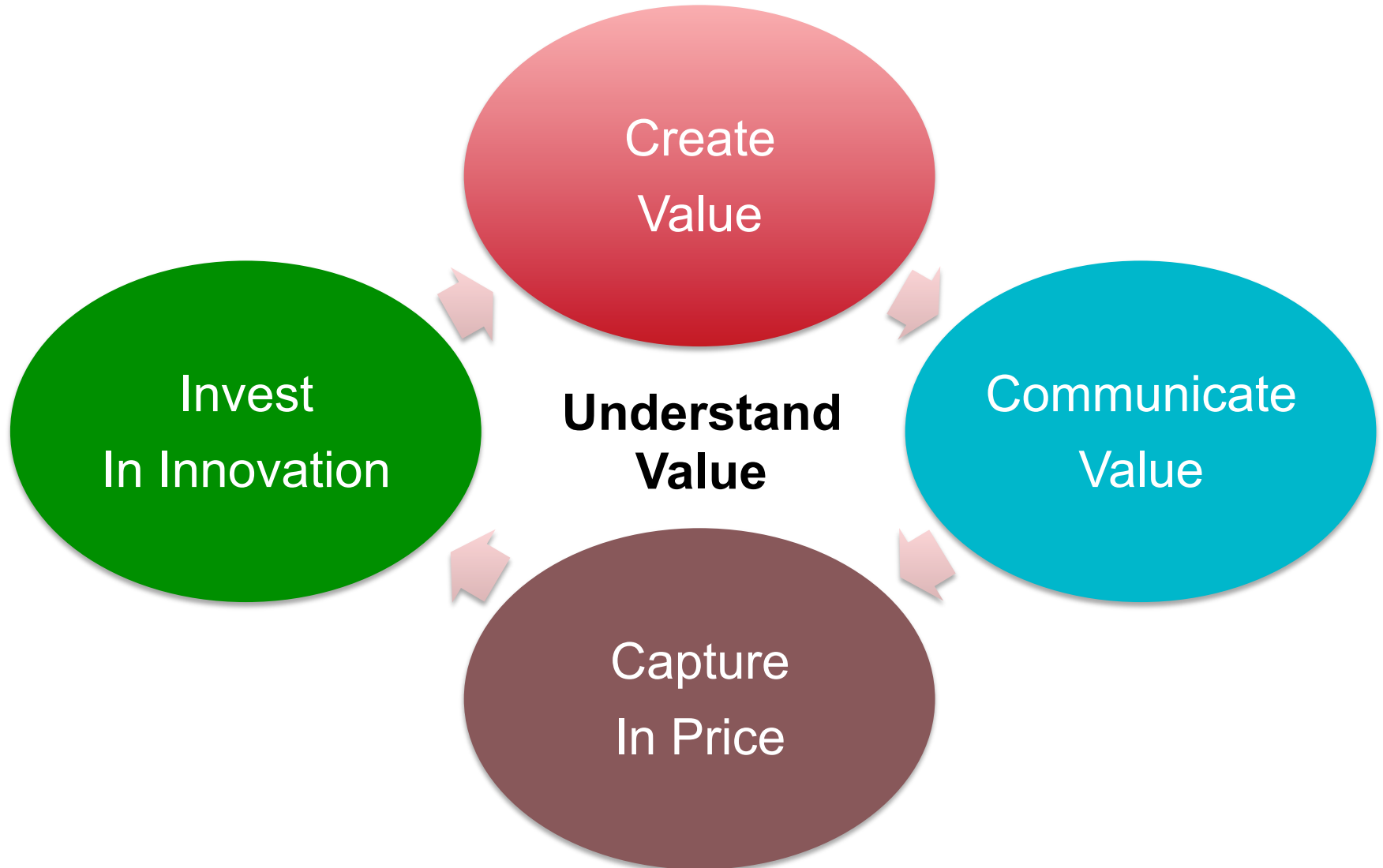- Participate on due diligence teams

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

Create
Value

Communicate
Value

**Understand
Value**

Capture
In Price

Invest
In Innovation

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
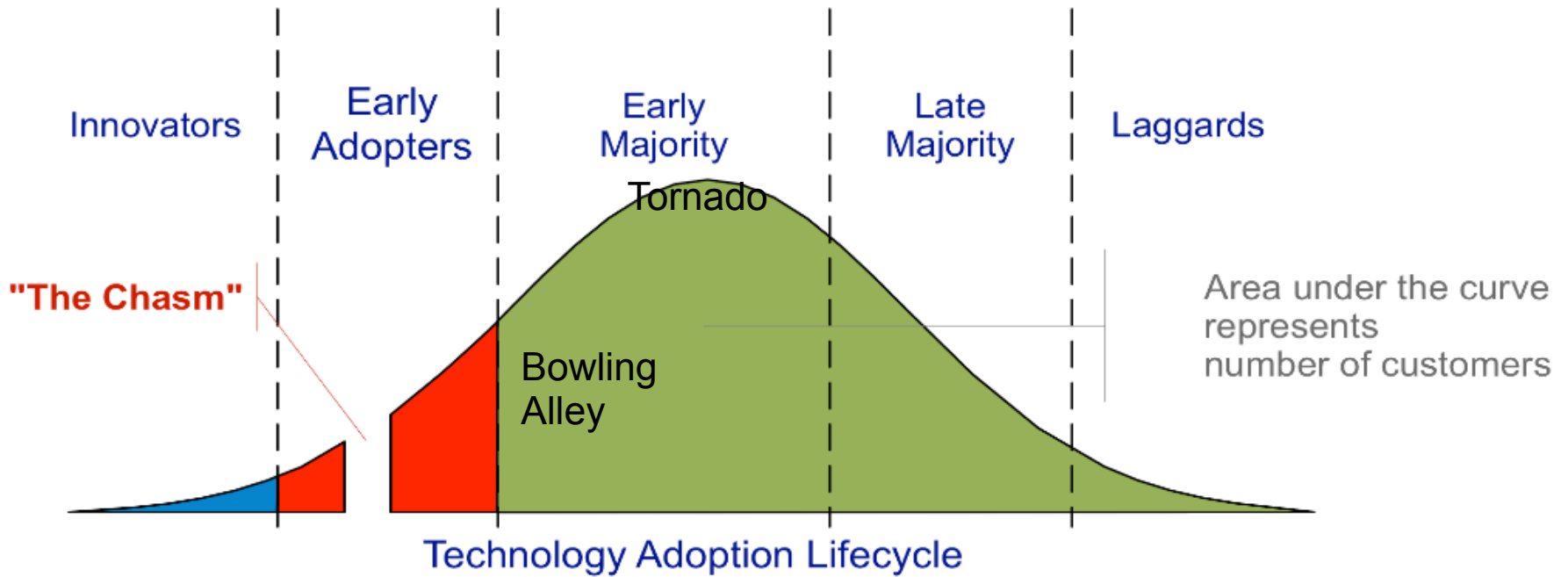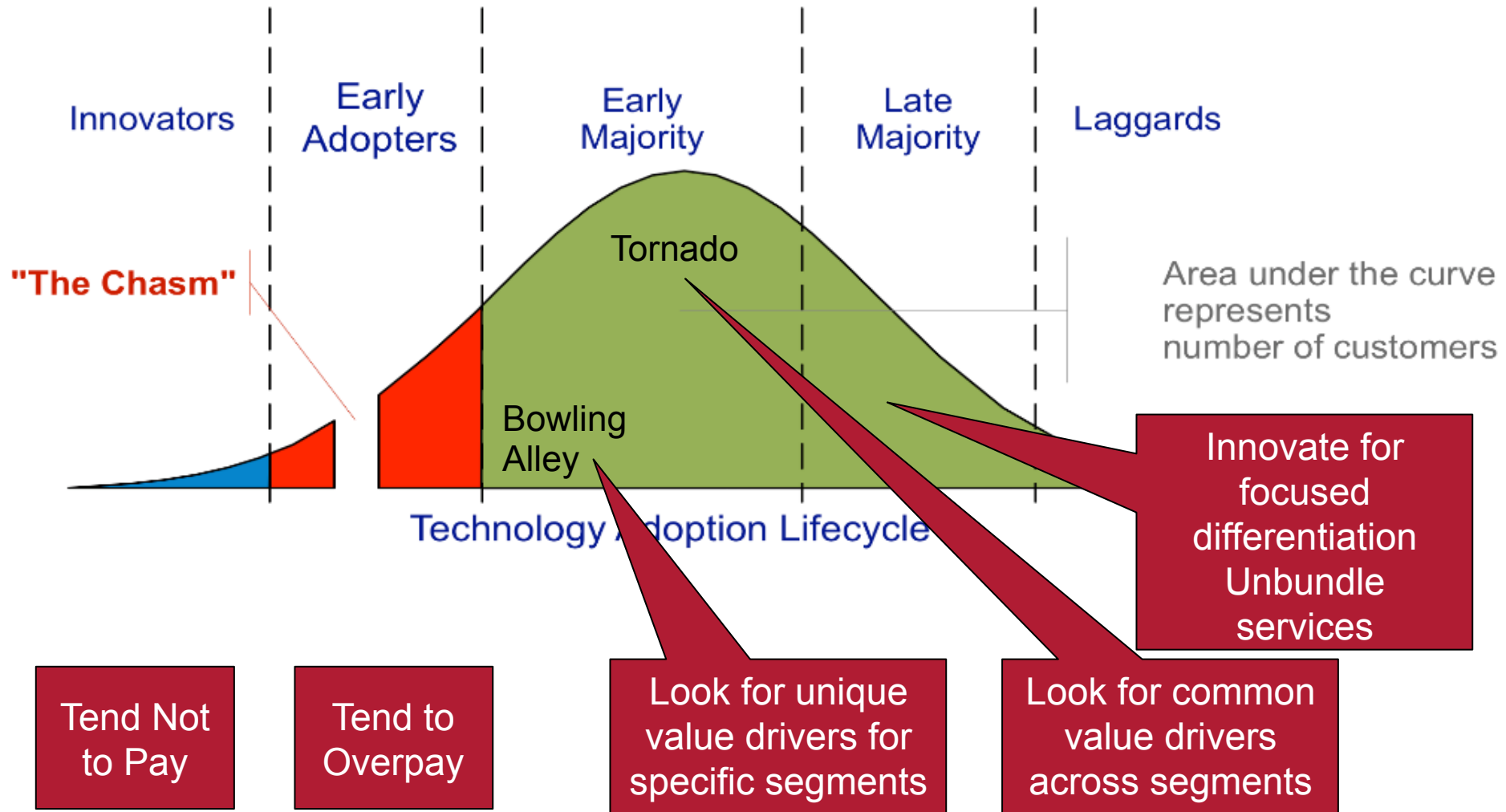
Order of operations

Common

Product → Cost → Price │ Customer (hopefully) │ Value (maybe)

Compelling

Customer → Value → Product → Price → Cost

Moore's technology adoption cycle

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Sustaining Innovations

Innovators | Early Adopters | Early Majority | Late Majority | Laggards

Tornado

"The Chasm"

Bowling Alley

Area under the curve represents number of customers

Technology Adoption Lifecycle

Disruptive Innovations

Impact on pricing

Innovators | Early Adopters | Early Majority | Late Majority | Laggards

"The Chasm"

Tornado

Bowling Alley

Technology Adoption Lifecycle

Area under the curve represents number of customers

Innovate for focused differentiation Unbundle services

Tend Not to Pay

Tend to Overpay

Look for unique value drivers for specific segments

Look for common value drivers across segments

From Features to Value

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Features
(what it is)

Functions
(what it does)

Benefits
(why it matters)

Value Drivers
(how it helps)

Quantified Value Drivers
($ impact)

Taking the Bus

Transports People

Gets to Work

Earn Money
Save Gas
Save Parking …

Relative to Car or Bike

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)
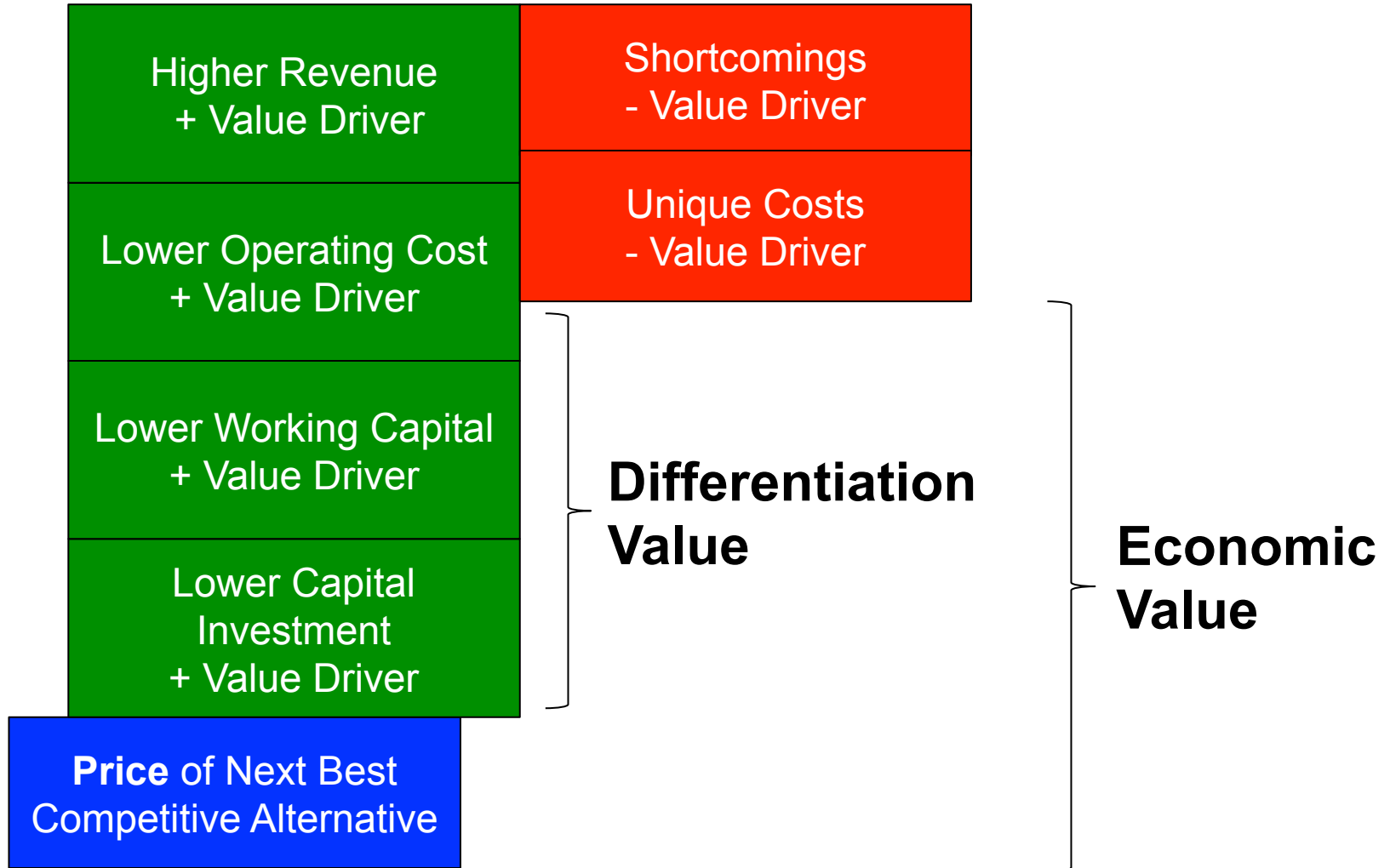
Relative to an **alternative**
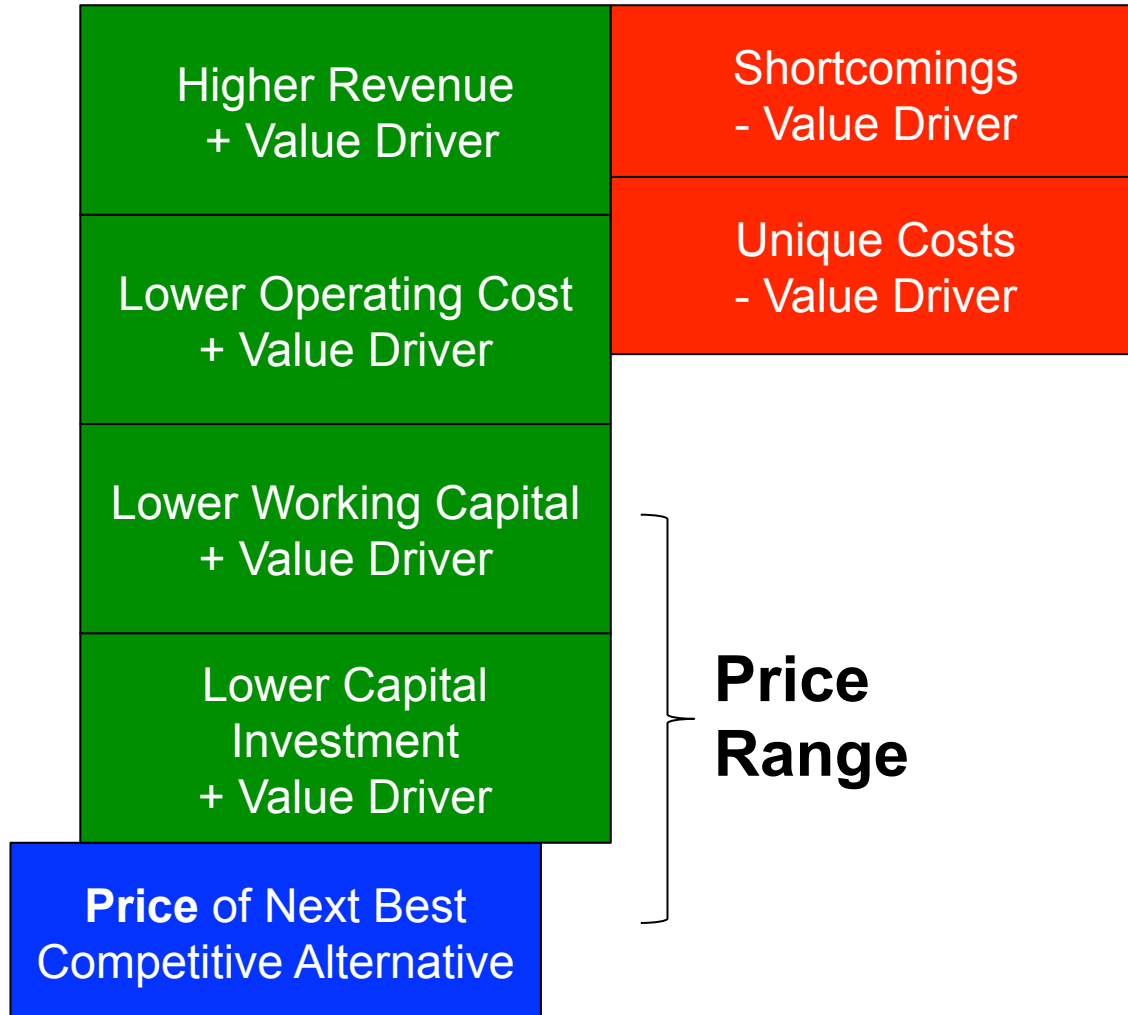(there is always an alternative – even if it is 'doing nothing')

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

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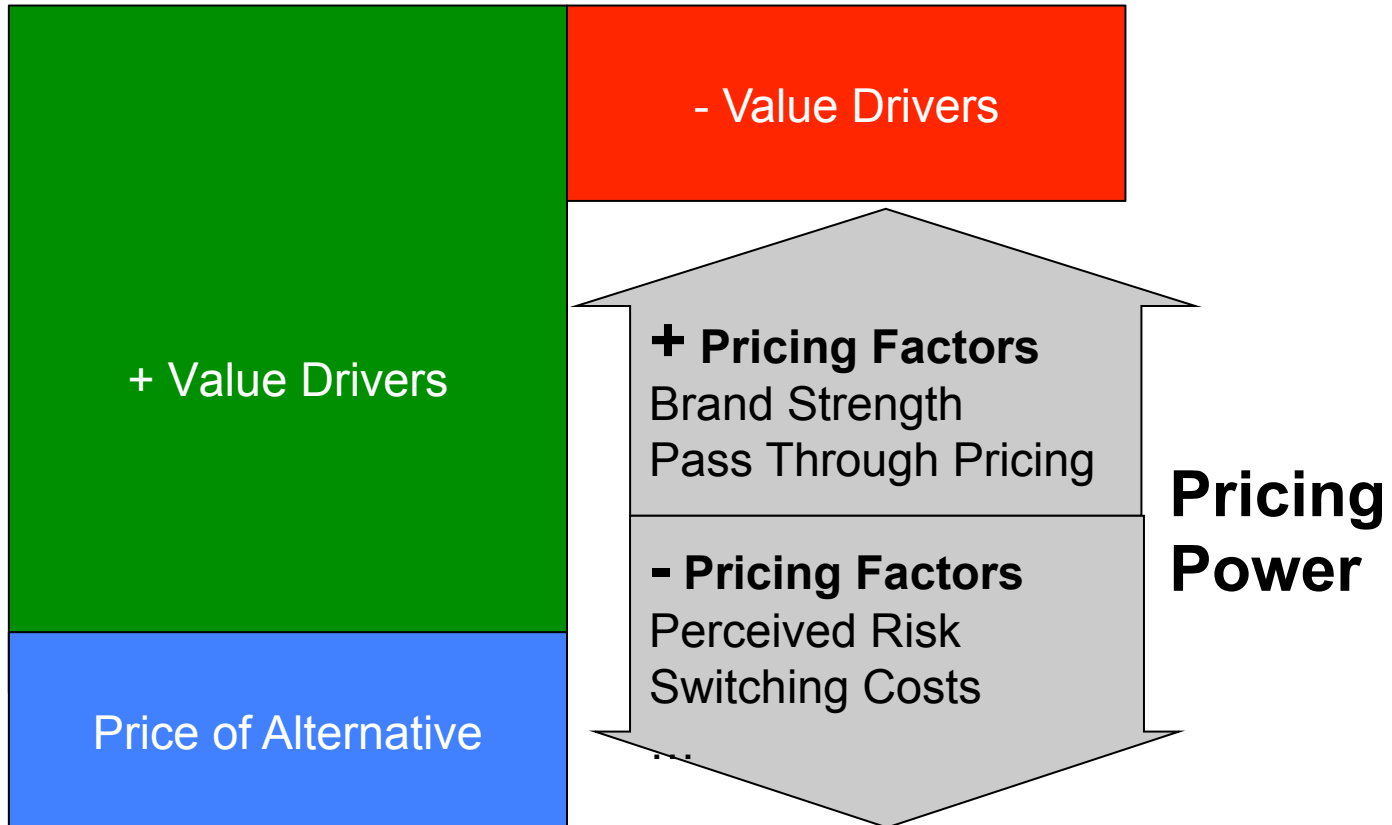- Make a process more efficient so a new plant investment can be deferred

Working Capital
- Reduce inventory
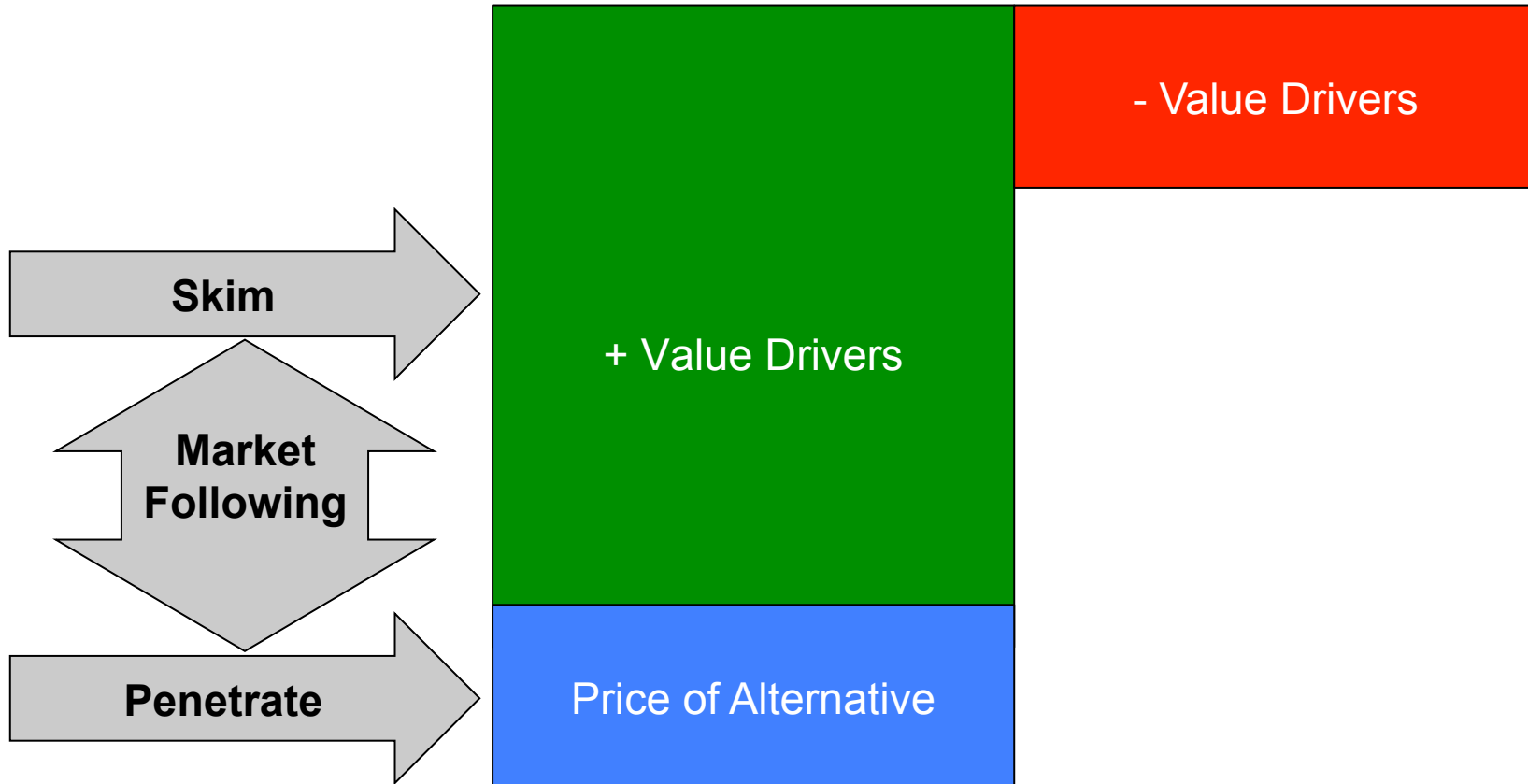- Accelerate inventory turns
- Reduce accounts receivable

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
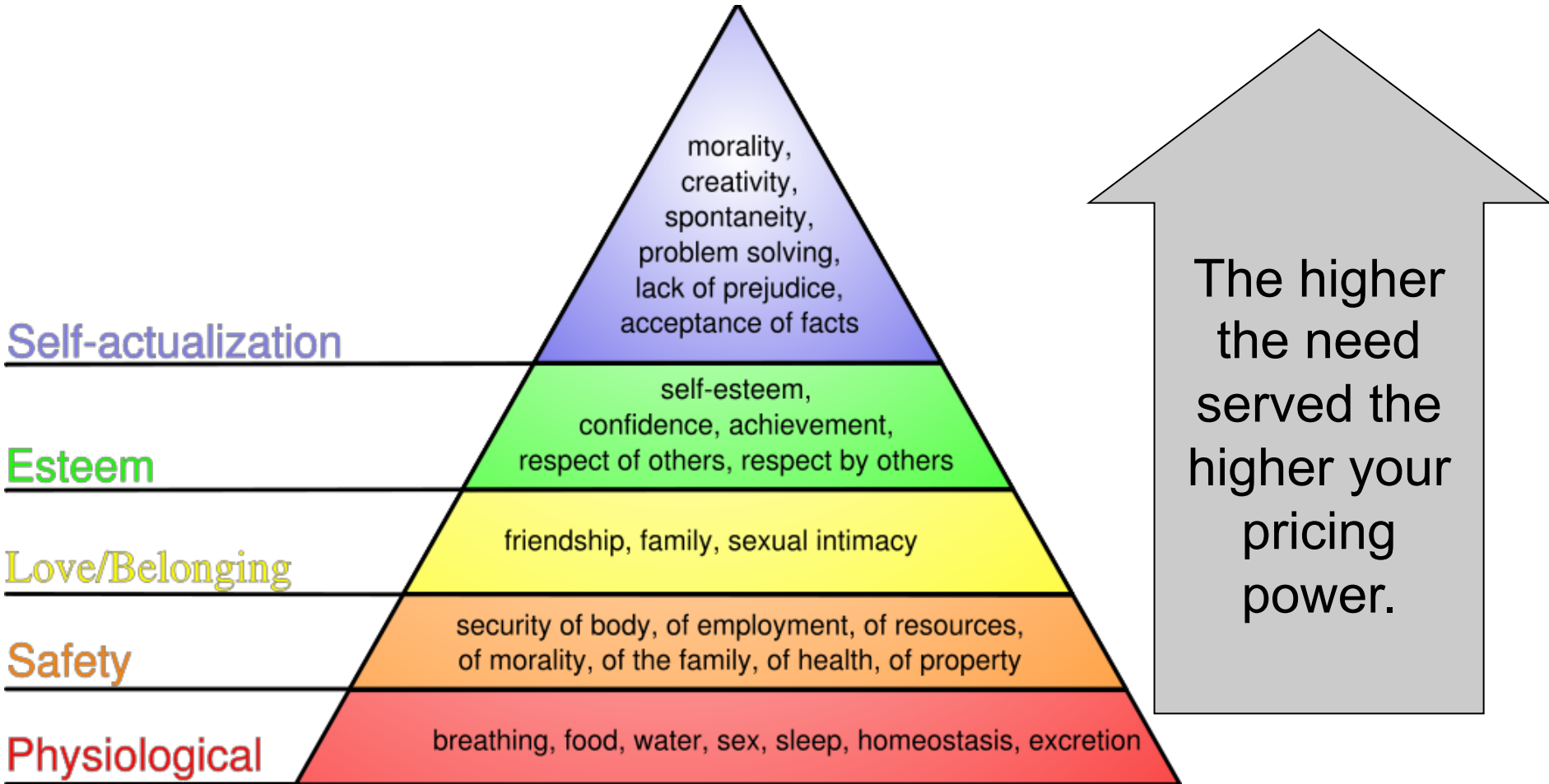(interest rates, energy prices)

Penetrate → Price as low as possible
Grab market share

Emotions matter

Self-actualization — morality, creativity, spontaneity, problem solving, lack of prejudice, acceptance of facts

Esteem — self-esteem, confidence, achievement, respect of others, respect by others

Love/Belonging — friendship, family, sexual intimacy

Safety — security of body, of employment, of resources, of morality, of the family, of health, of property

Physiological — breathing, food, water, sex, sleep, homeostasis, excretion

The higher the need served the higher your pricing power.

The value metric

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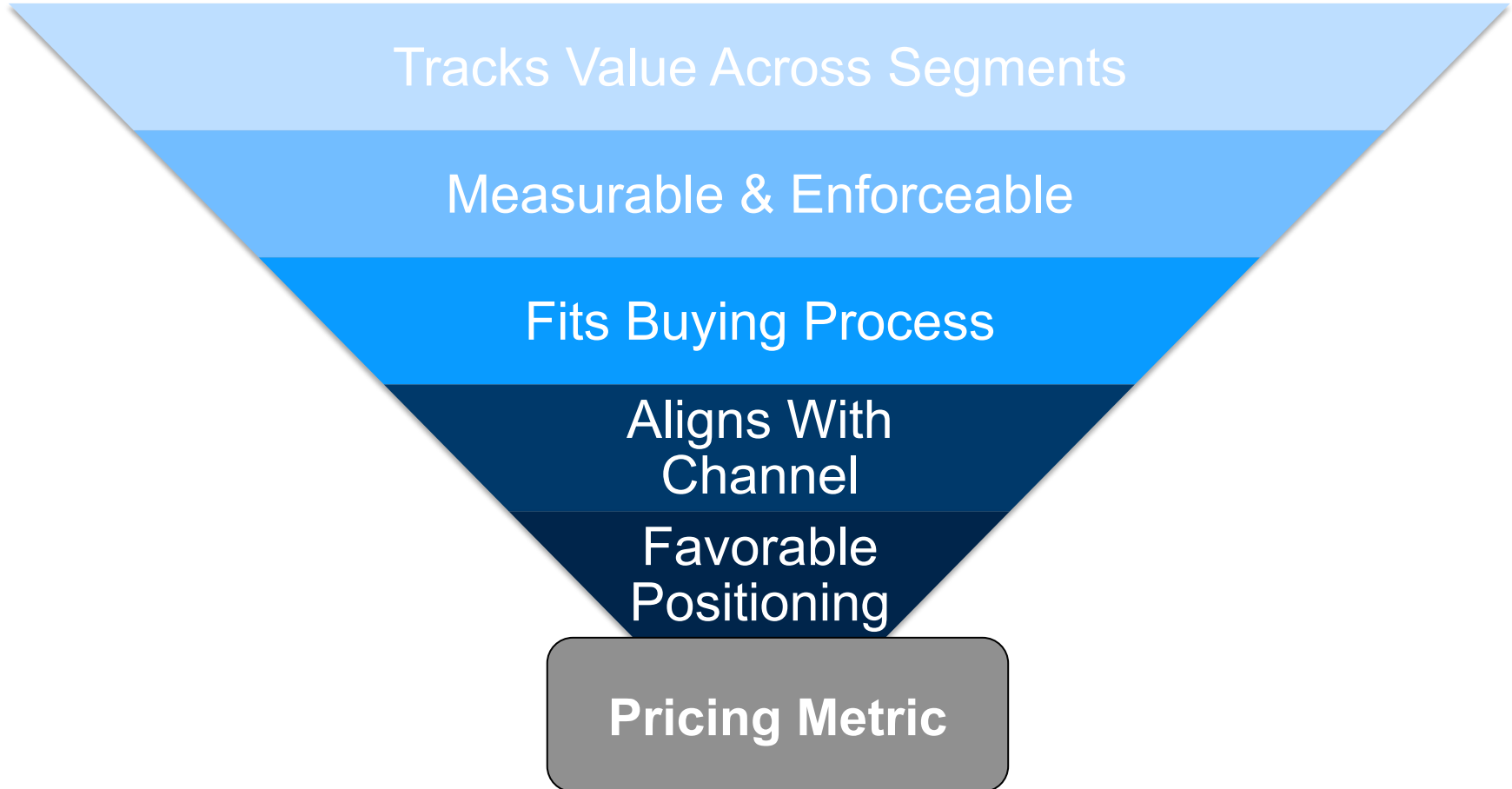from your offer

Liters or square meters?
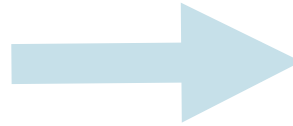
Value metric innovation

The ability to instrument cloud software to measure use and to integrate with other systems opens many new possible pricing metrics
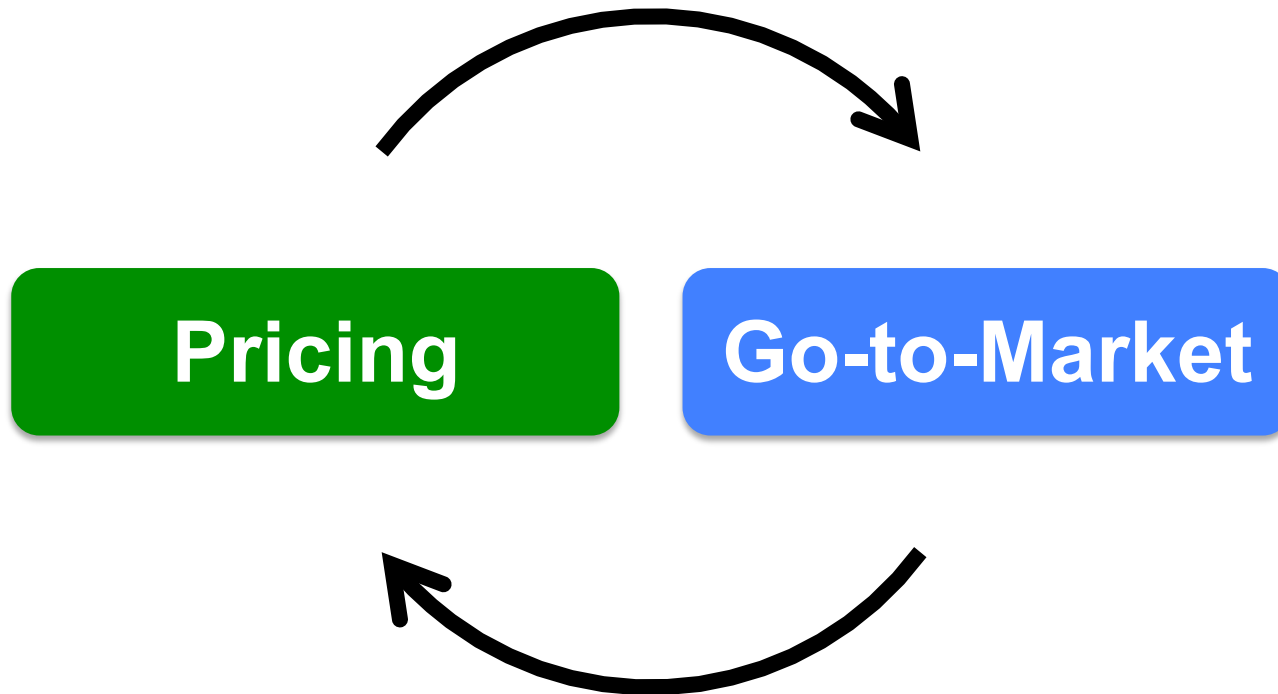
The Internet of things makes it possible to extend this to the physical world

We are in the golden age of pricing metric innovation

Choosing a pricing metric

Tracks Value Across Segments

Measurable & Enforceable

Fits Buying Process

Aligns With Channel

Favorable Positioning

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?

Revenue = Price X Volume (Duh!)

Value (to Customer)

High

Low

Price

Price

Price

Price

Size of Segment
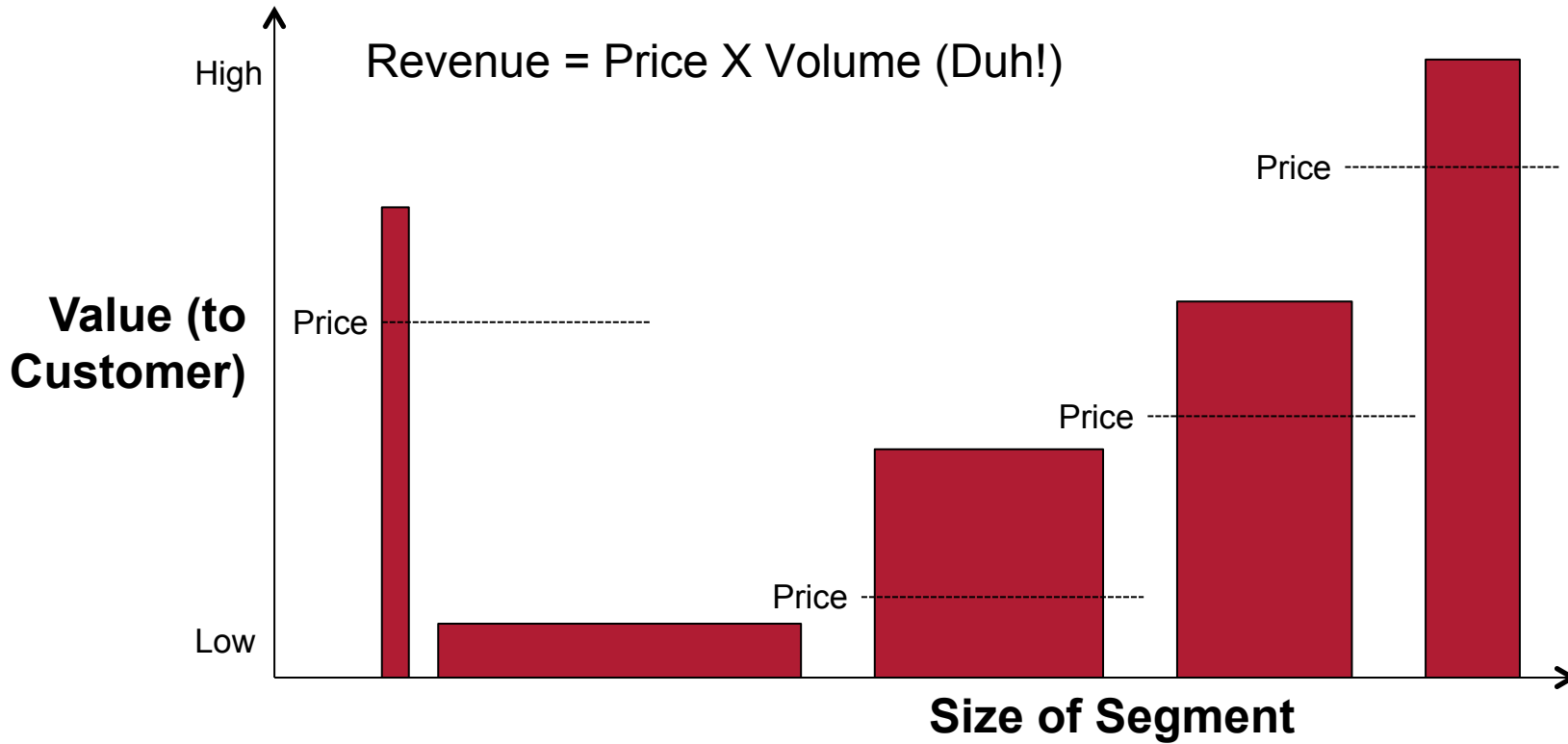
Eliminating the obvious

Revenue = Price X Volume (Duh!)

Value (to Customer)

High

Segment too small

Not enough value

Price

Price

Price

Low

Size of Segment
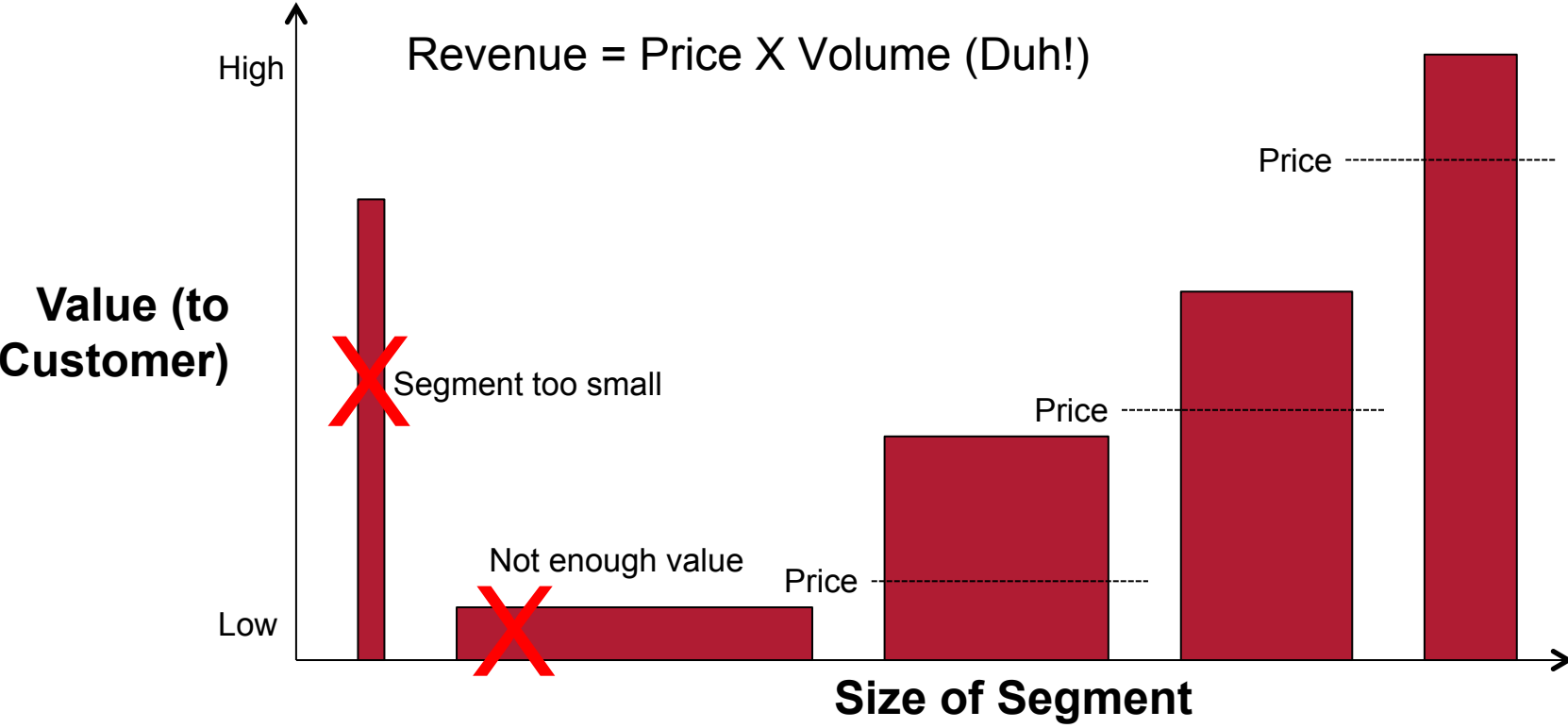
Costs sneak back in

Profit = Price X Volume - Cost to Serve

Value (to Customer)

High

High

Price

Price

Price

Cost To Serve

Low

Low

Size of Segment

What is your pricing strategy?

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Profit = Price X Volume - Cost to Serve

Value (to Customer)

High

Low

High

Low

Price

Price

Price

Cost To Serve

Size of Segment
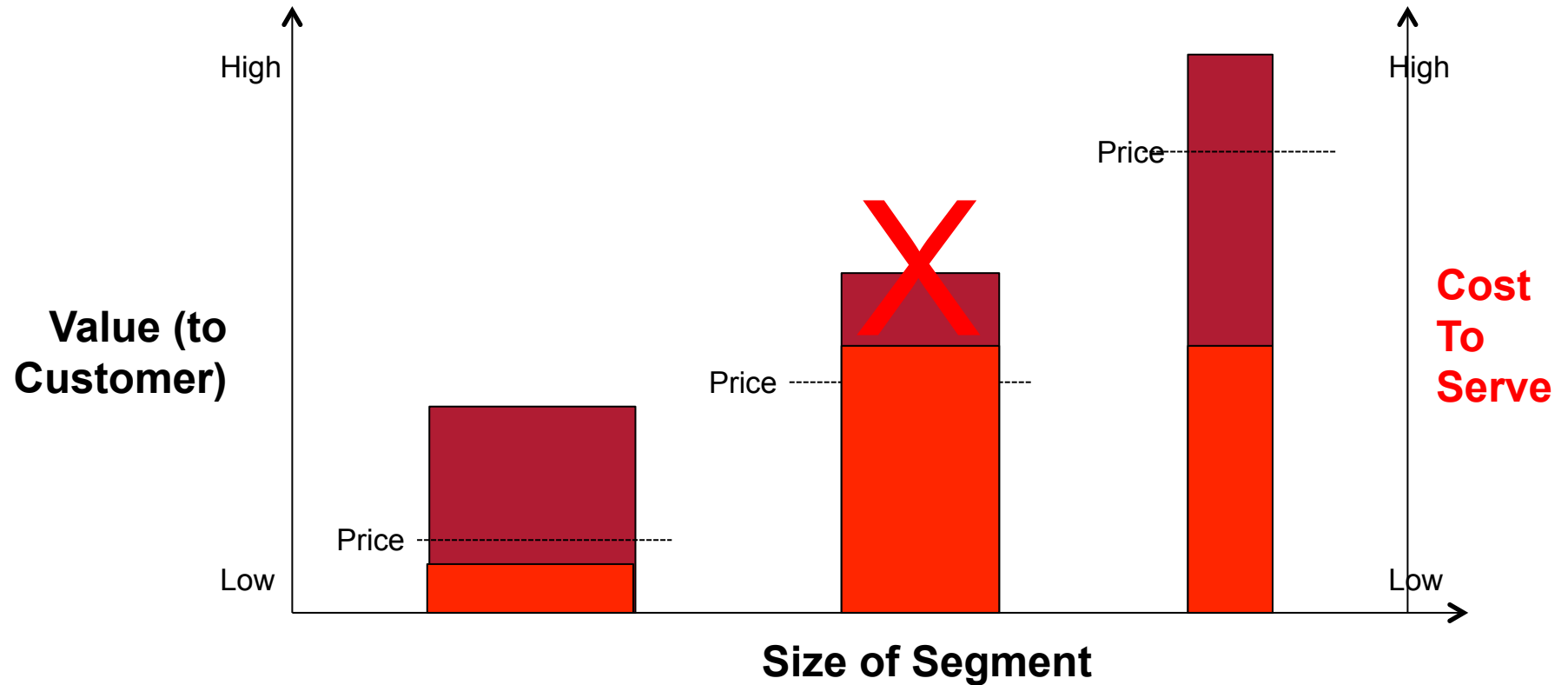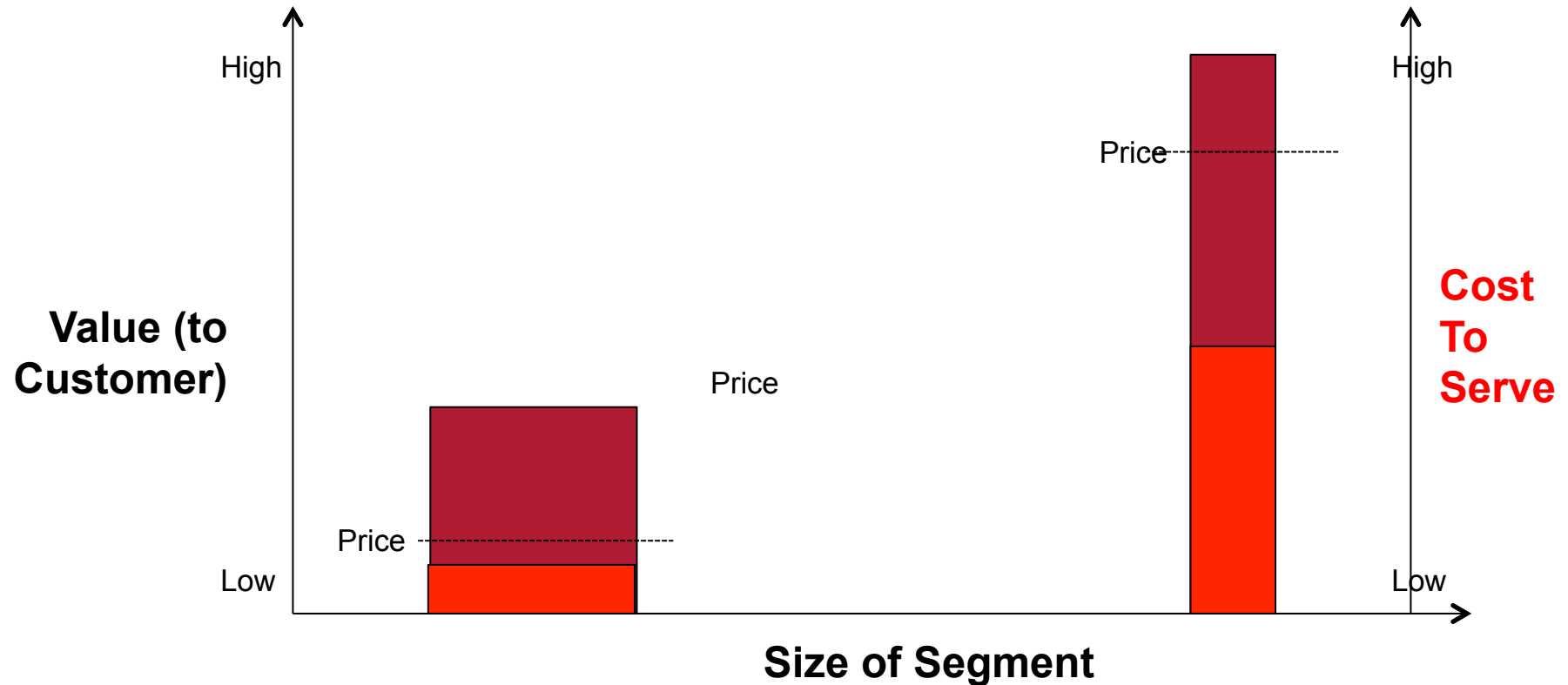
Back to basics

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

Ibbaka Blog for quick pricing insights

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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