



Ibbaka Powers Growth





**New
Ventures BC**



Introduction to Value-based Methodologies

Pricing for Innovation

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TODAY'S PRESENTERS



Karen Chiang

Managing Partner

Karen Chiang has extensive experience growing technology product and services business at all levels of scale and maturity.

She leads workshops on pricing and investment across North America and has contributed several important innovations to pricing best practices.

Karen is an active angel investor, applying her pricing insights to due diligence.

[See her skill profile](#) | [Connect on LinkedIn](#)



Jessie Tai

Consultant

Jessie works closely with Ibbaka clients to develop value-based market segmentations. She helps Ibbaka customers understand their segmentation, recognize the value that they are able to deliver to their markets. This allows for a solid foundation for value positioning and communication, paving the way for businesses to use pricing as a critical part of their innovation and growth strategy.

[See her skill profile](#) | [Connect on LinkedIn](#)

DISCUSSION - ABOUT US



Tell us about your role and how it relates to pricing



- Who is dealing in B2B, B2C, B2G markets?
- What is your role?
- Are you responsible for pricing?



- **Aspects of your company may be incomplete**
 - Management team may be lacking key individuals
 - Product is still in development, or
 - Product is not yet on the market in a commercialised form, (typically in 'beta')
 - If commercially available, the product is generating revenues but on a limited basis
 - May have filed for patents for proprietary technologies
- **Funding is transitioning from founders, friends & family**
 - Looking to attract funds from accelerators, angels and maybe VCs



- **Pricing is central to how you communicate your value and position your offer**
- Value has economic, emotional and community aspects – these matter
- Market segmentation is the foundation of your pricing strategy
- Connect the **value metric** to the **pricing metric**

Pricing power is important to investors



AGENDA

Framing Principles

- Value cycle
- Concepts

Value

- Pricing is based on the value you provide to your customers
- Value has emotional, community, and economic aspects – all of these matter

Differentiation & Segmentation

- Market segmentation is the foundation of your pricing strategy
- Pricing methods – when to use
- Connect the value metric to the pricing metric
- Pricing power is important to investors

Pricing Core Concepts

- Pricing is central to how you communicate your value and position your offer
- Your pricing is part of your innovation
- Pricing changes across the product lifecycle



Fairness

- Pricing must be perceived to be fair. This means two things:
 - Value for what is provided
 - Different stakeholders receive and pay for value in a balanced way

Transparency

- In order for pricing to be perceived to be fair there must be transparency. It must be clear to people how and why prices are set

Consistency

- Pricing and value delivered need to be consistent across time
- The same pricing principles need to be applied to different stakeholders

A standard pricing process that is visible to all stakeholders will contribute to the perception of fairness, transparency and consistency

FRAMING – THE VALUE CYCLE

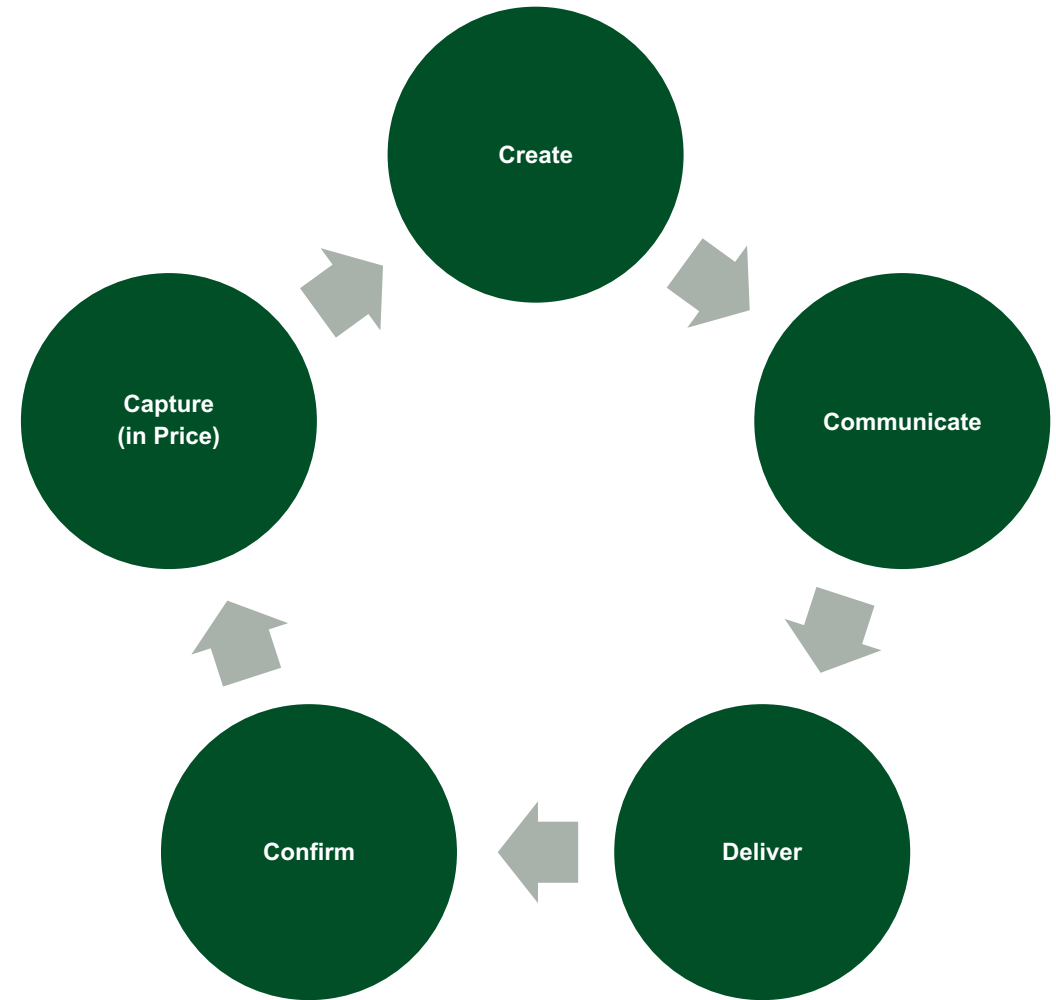


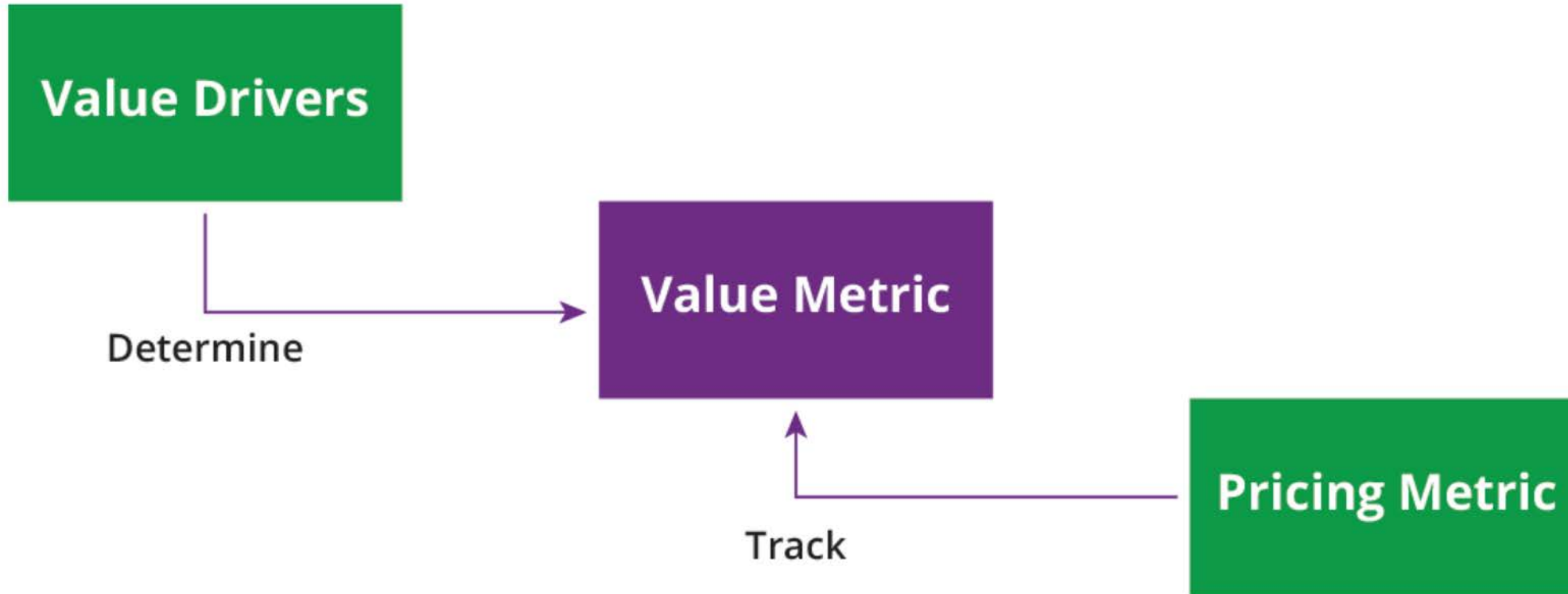
Fairness, transparency and consistency are a product of the value cycle

The foundation of the value cycle is understanding of emotional and economic value

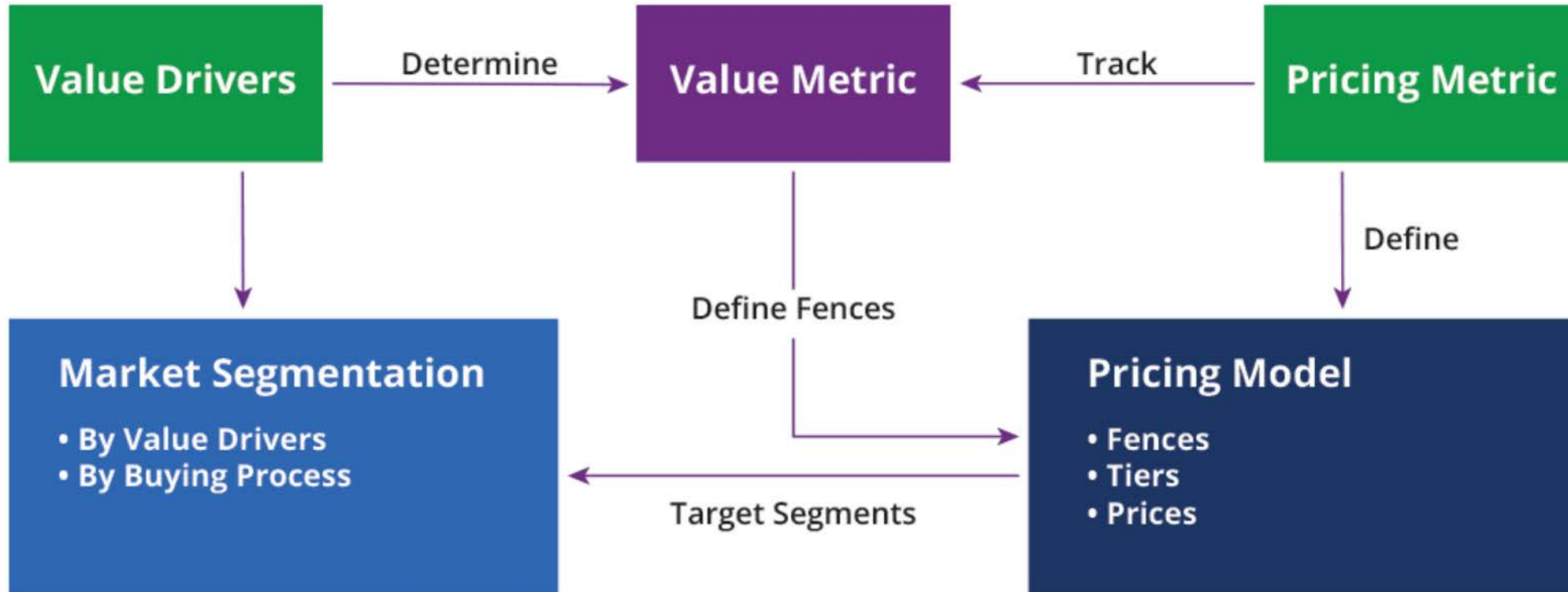
Confirmation is critical to making sure that value is actually being delivered to all stakeholders

Stakeholders need to understand the connection between capture and creation—there needs to be a commitment to ongoing value creation for stakeholders





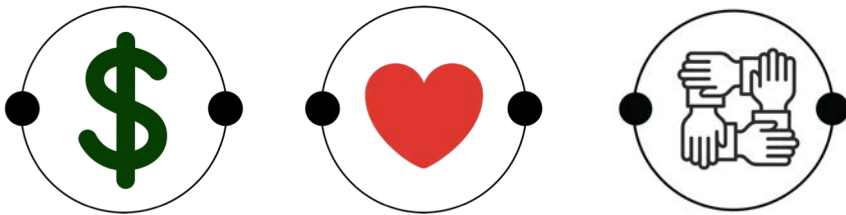
A COMMON LANGUAGE AND CONCEPTS – THE BASIC FRAMEWORK EXPANDED





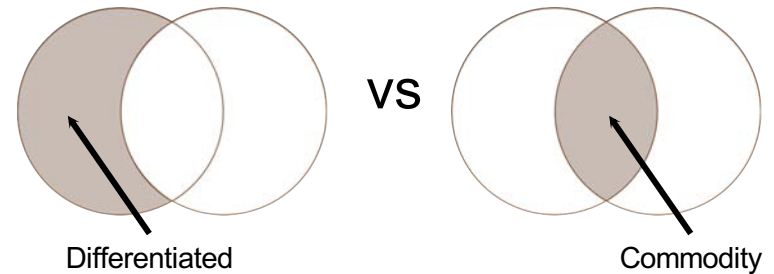
Value-based pricing factors in

- Economic value drivers
- Emotional value drivers
- Community value drivers



Decomposes value into two components

- Differentiated
- Undifferentiated or commodity



Value Drivers

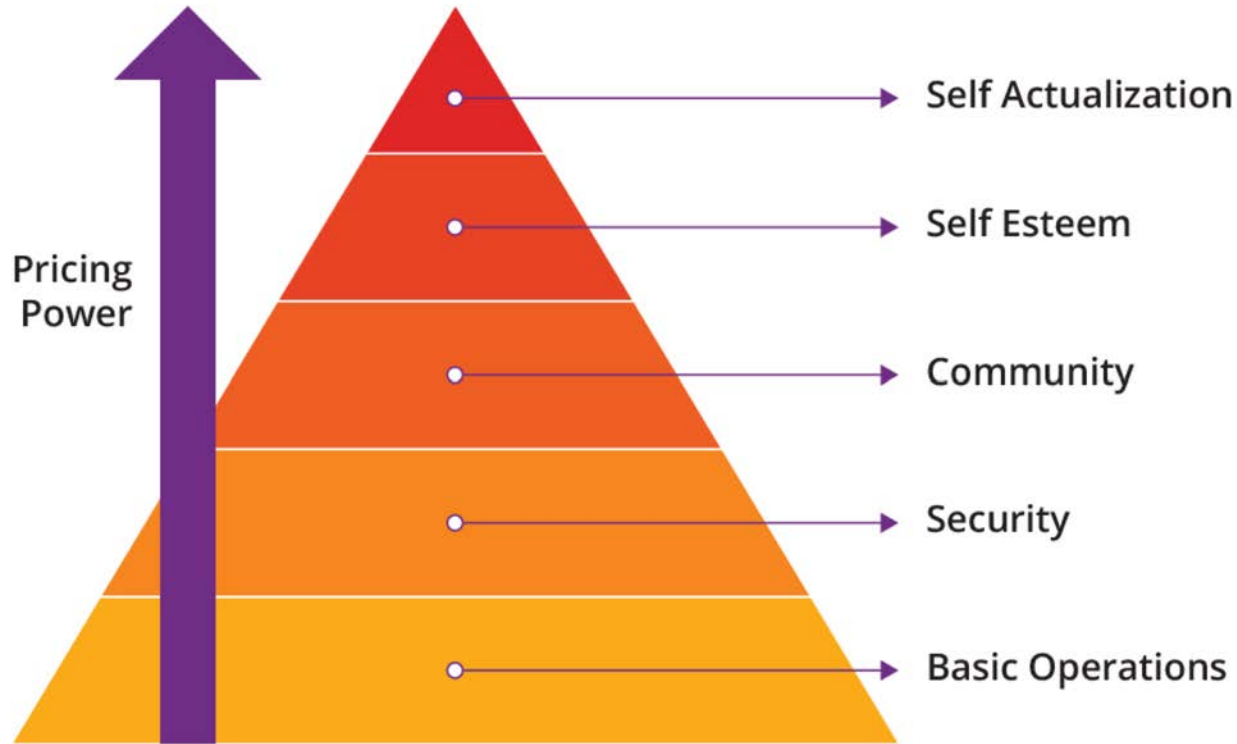


Understanding value is the foundation for

- Market Segmentation
- Value-Based Pricing
- Marketing Strategy
- Value-Based Sales



**Without value
There is nothing to price**



Maslow's Hierarchy

Provides a good way to frame emotional value

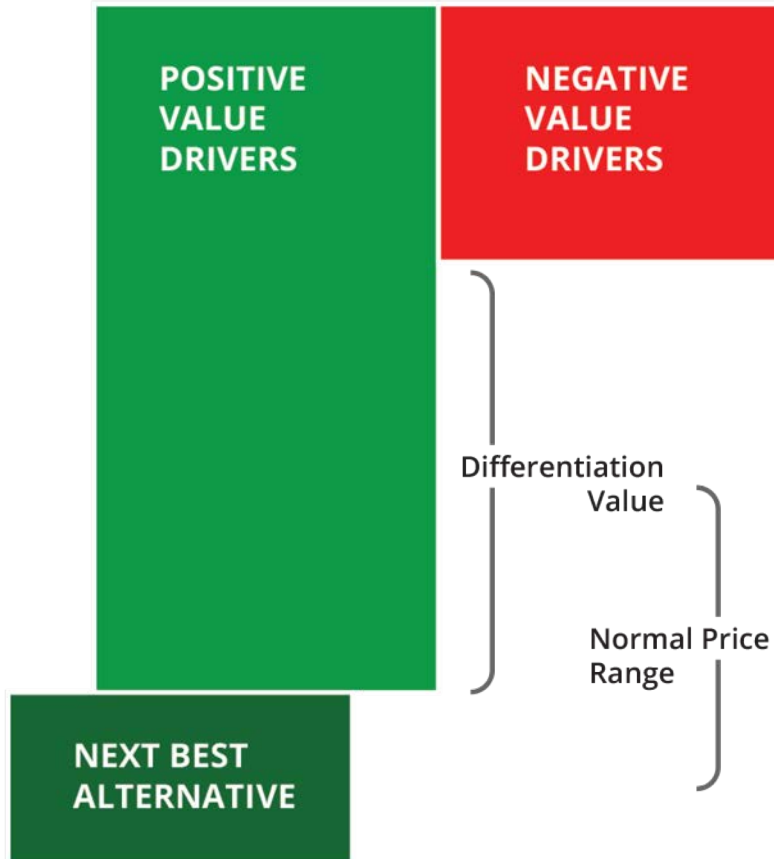
Basic functionality (that drives most economic value) is not a powerful way to frame emotional value

The higher up the hierarchy you can position your offer the more pricing power you will have

COMMUNITY VALUE DRIVERS



Community Value Driver	Description	Examples
Social (Citizens) Impact	Engaging society as a whole to build community	Advance diversity; Reduce social injustice; Promote equality
Health and Wellbeing	Fostering good health including healthy lifestyles, physical, mental, and social wellbeing	Eradication of disease or infirmity
Rights and Freedoms	Facilitating rights to other community drivers Enabling freedom of choice, expression	Enabling life, liberty and security; Freedom of speech; Fair and public trials; Right to due process; Voting; Worship; Mobility
Security and Safety	Being safe from other undesirable outcomes caused by deliberate threats Being protected from harm of unintended threats	Eradication of terrorism; human trafficking; theft; harassment; violence; corruption; discrimination
Society Advancements	Facilitating advancements of other community drivers	Providing resources, facilities, frameworks and process towards elevating society as a whole
Education	Providing education and knowledge towards the betterment of society Providing knowledge, skills, and cultural norms for members within a community to improve personal lives and help societies to run smoother	Improving literacy and numeracy



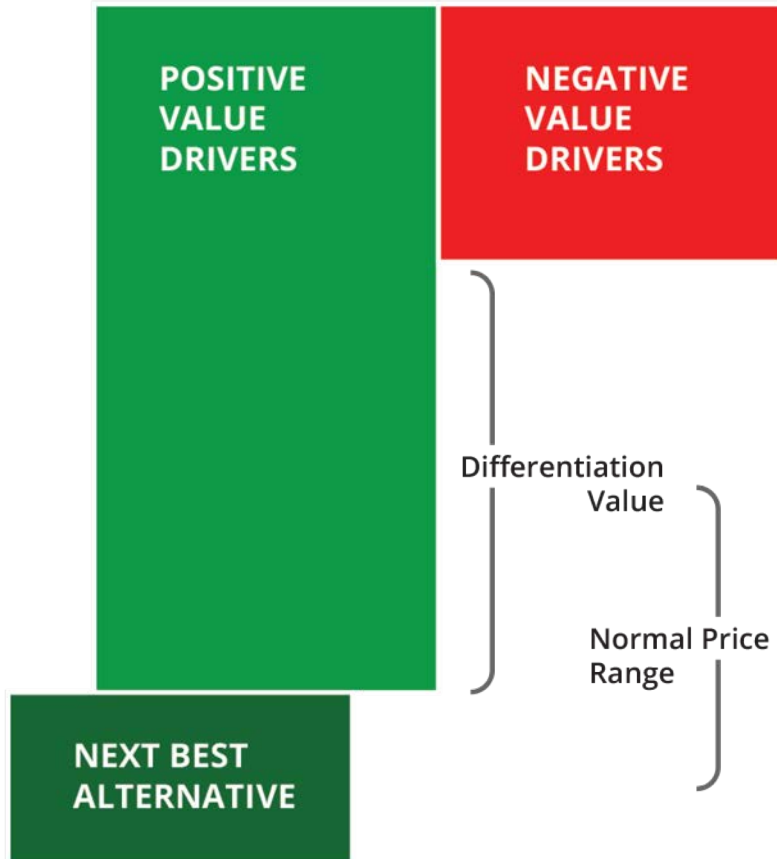
Economic Value Estimation (EVE)

Developed by Tom Nagle

Value drivers measure the impact of your solution on your customer's P&L relative to an alternative

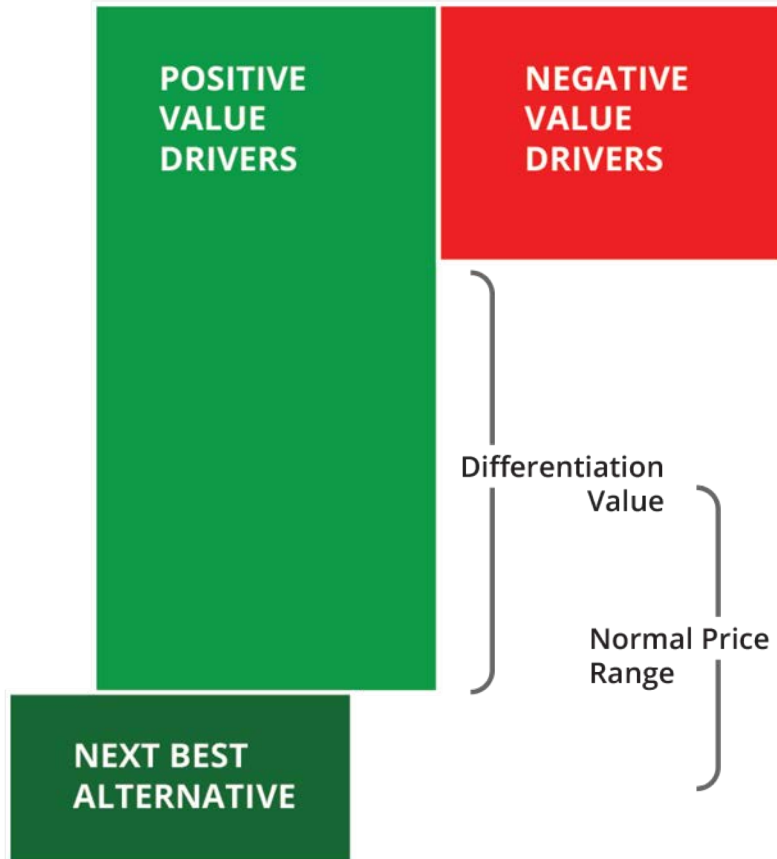
Always consider your own shortcomings and unique costs relative to the alternative

ECONOMIC VALUE – POSITIVE ECONOMIC VALUE DRIVERS



ECONOMIC VALUE DRIVER	EXAMPLES
Increase revenues	Increase market size Increase market share Improve pipeline metrics
Decrease operating expenses	Reduced employee turnover/cost of recruiting Streamlined/automated administration
Decrease operating capital	Reduced inventory Faster collections/accounts receivable
Decrease capital investment	Get more productivity from existing assets Defer capital investments
Decrease risk	Better compliance
Increase options	Flexible benefit packages tailored to individual needs Ability to scale usage as required

ECONOMIC VALUE – POSITIVE ECONOMIC VALUE DRIVERS



Negative economic value drivers are:

- **Your shortcomings** compared to the next best alternative (that is, your competitor's differentiation)
- The **unique costs** associated with your offer, such as switching costs



DISCUSSION – EXAMPLES

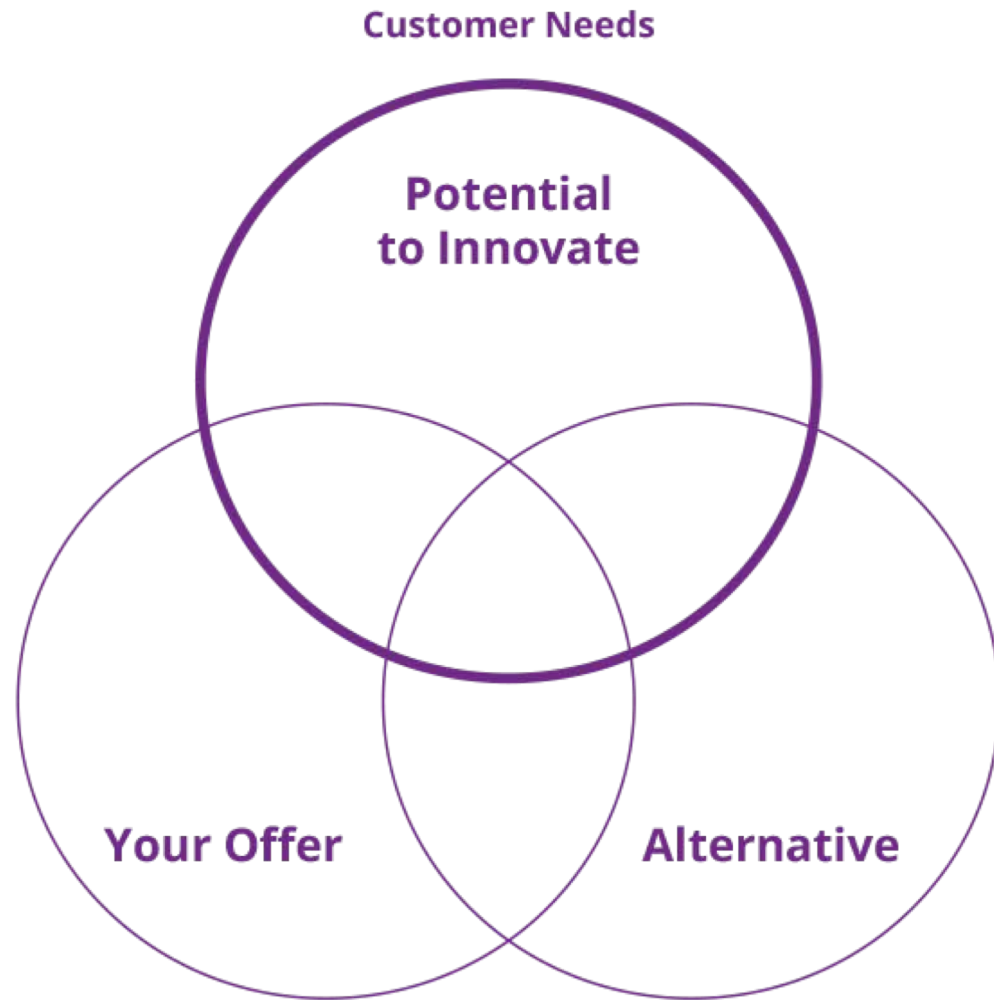
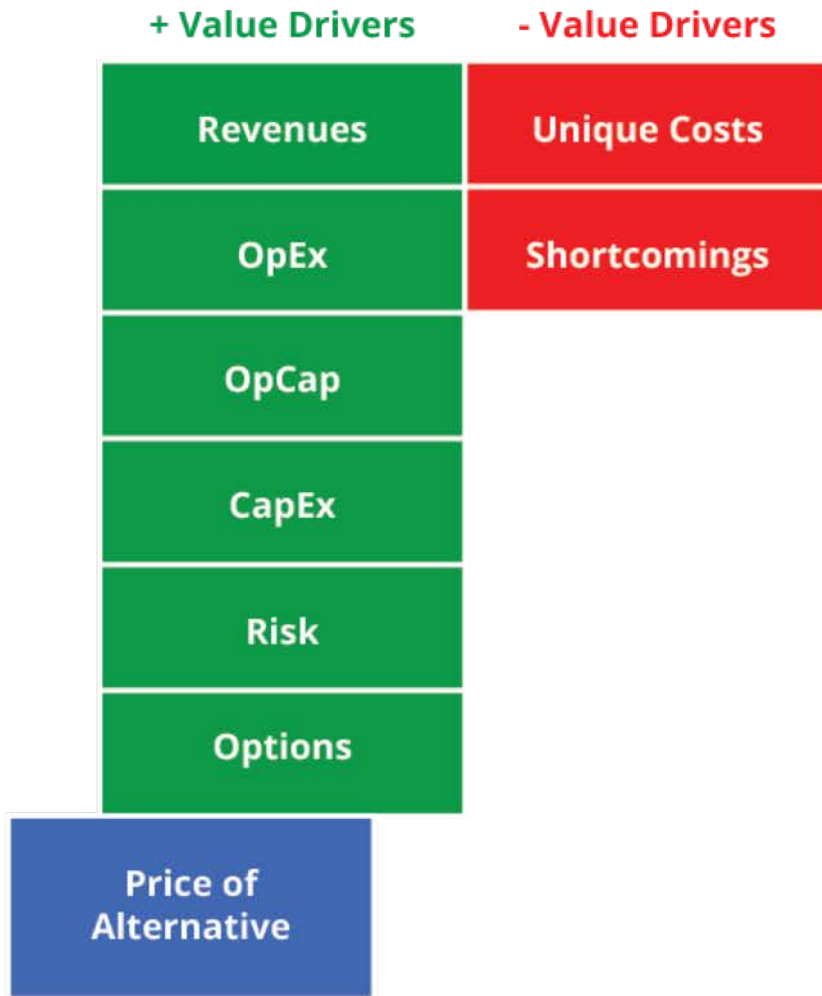
Can we hear from the audience examples on value drivers?



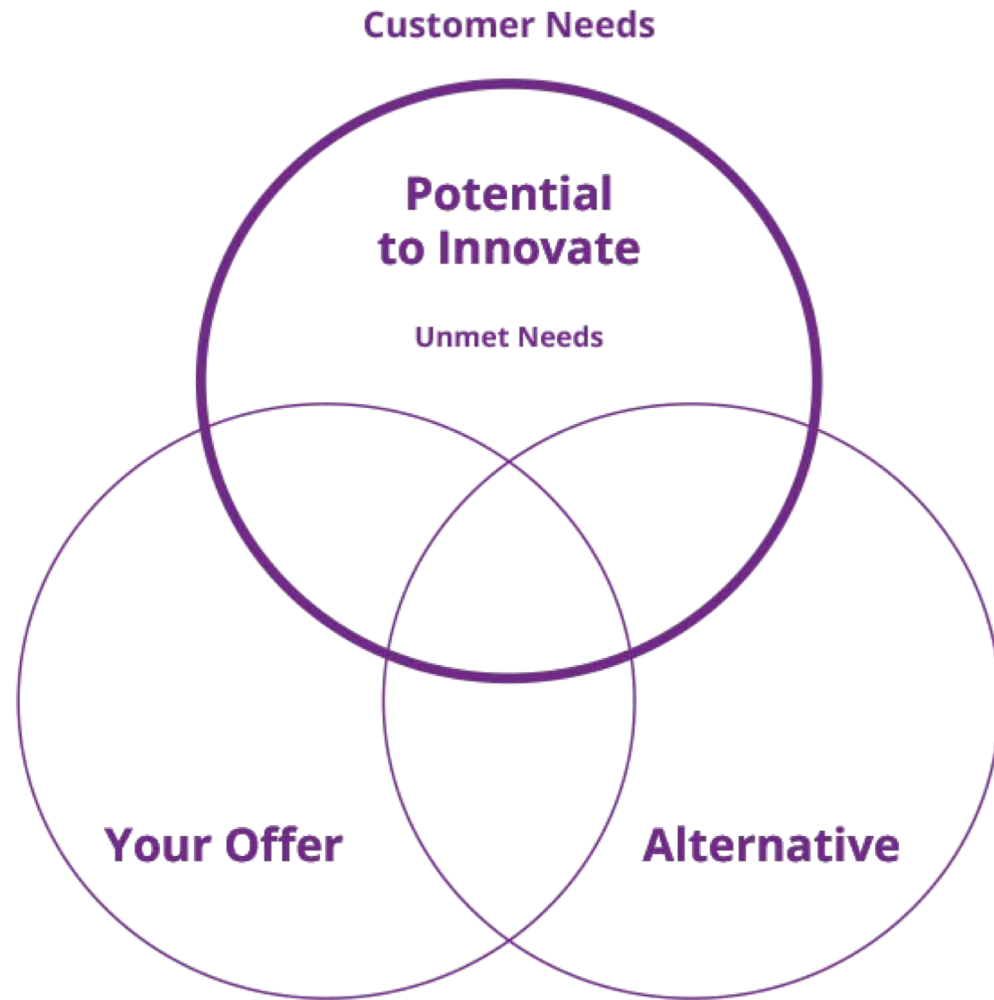
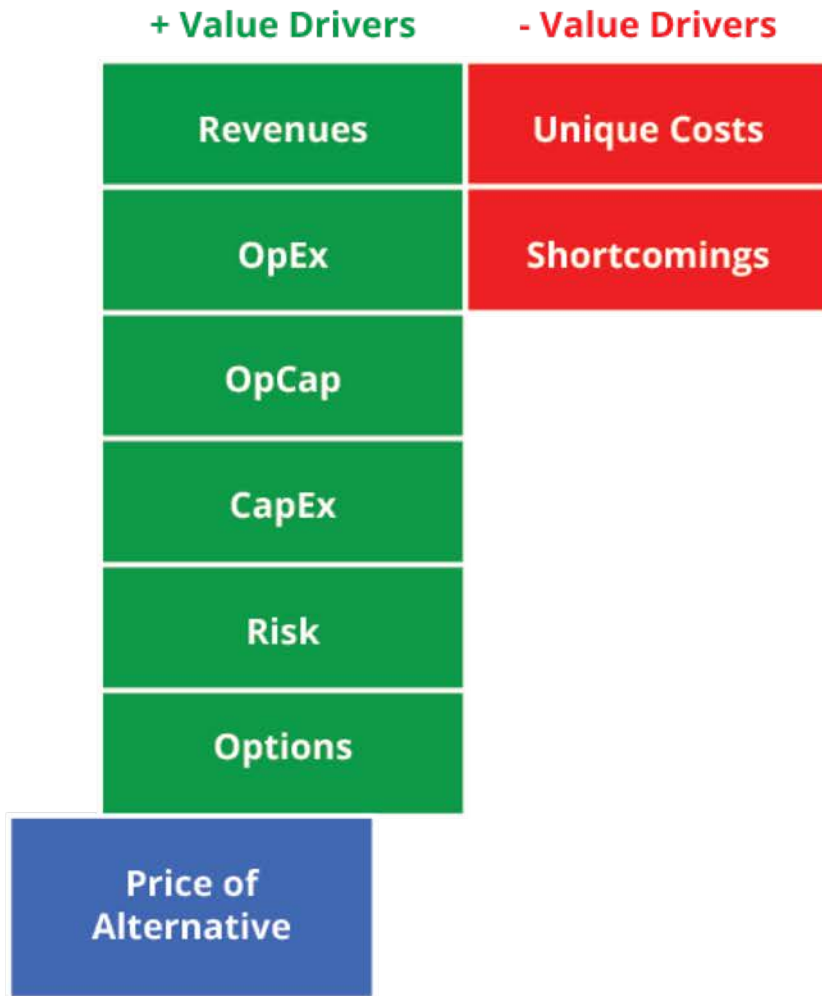
- Emotional Value Drivers?
- Community Value Drivers?
- Economic Value Drivers?

Differentiation & Segmentation

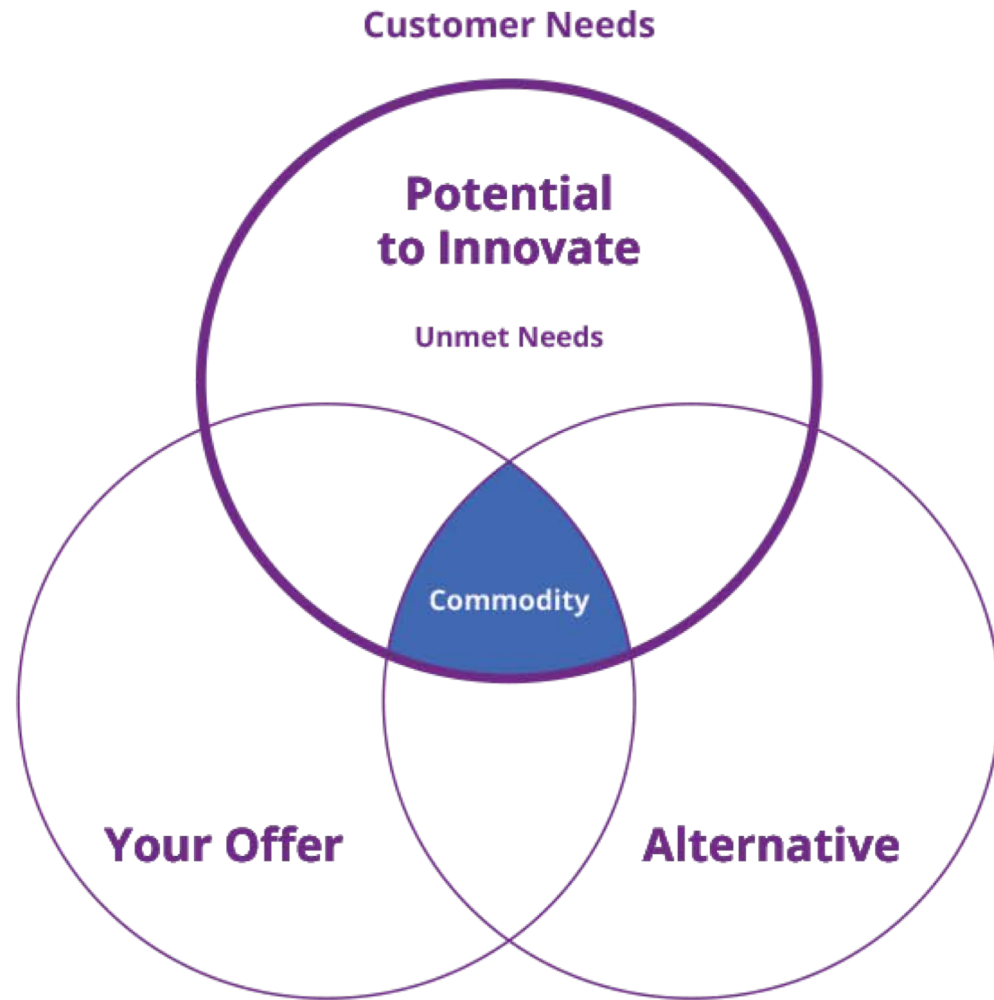
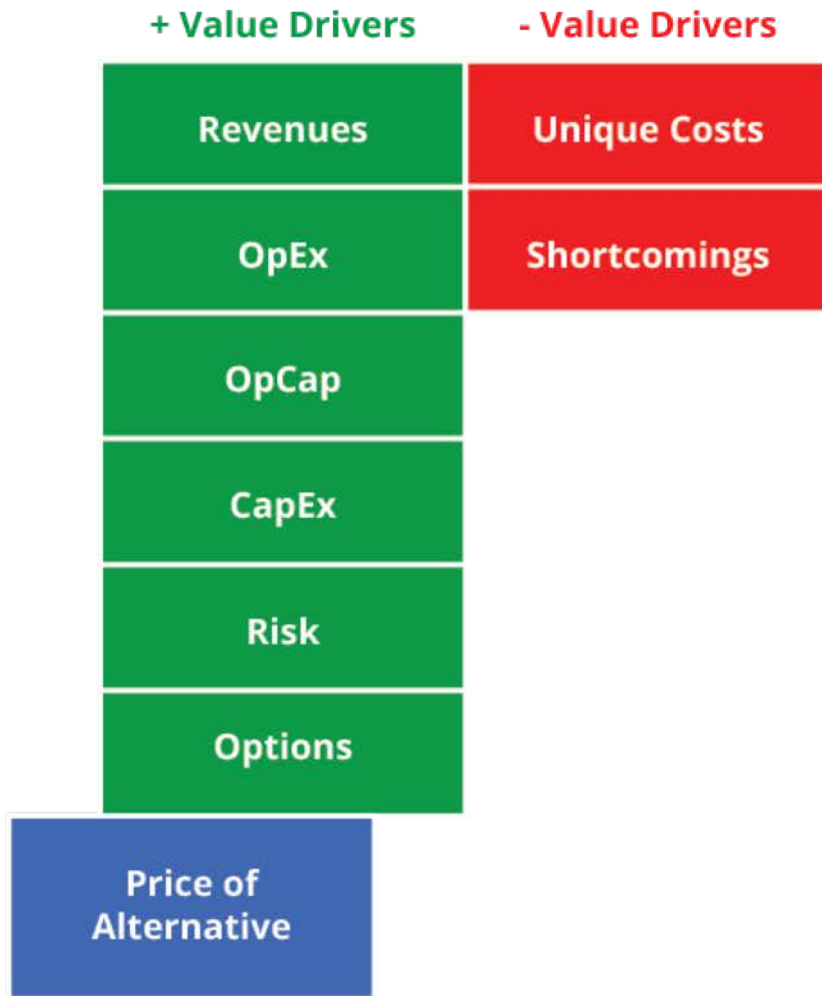
DIFFERENTIATION



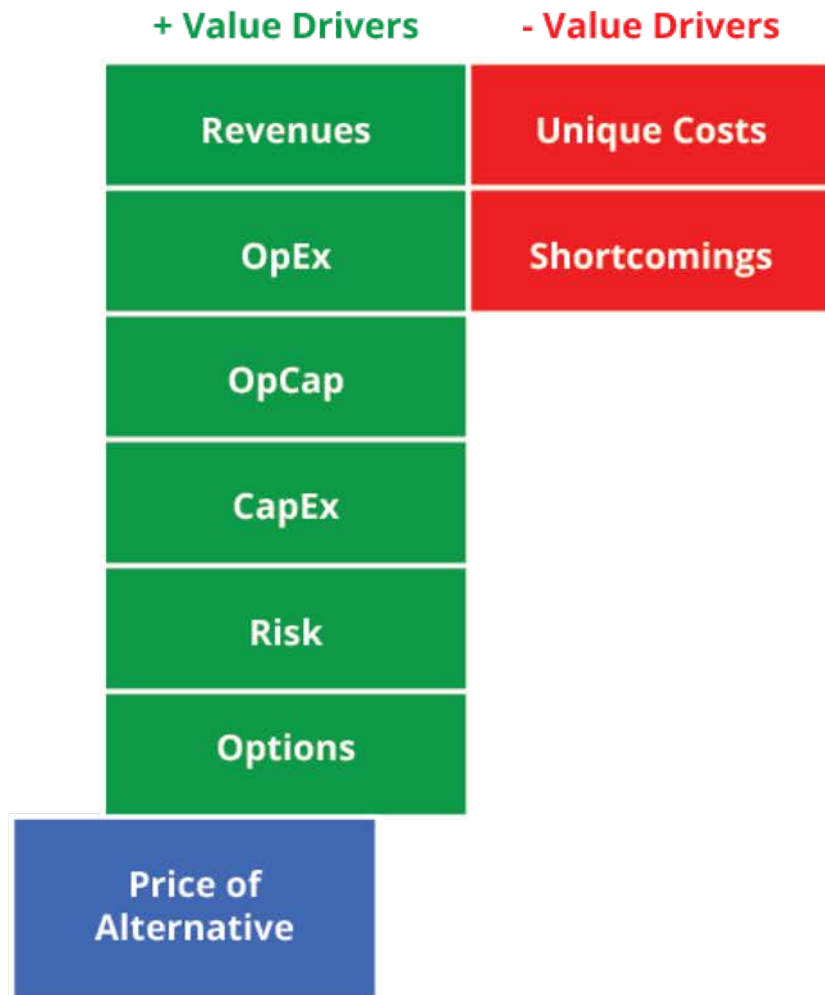
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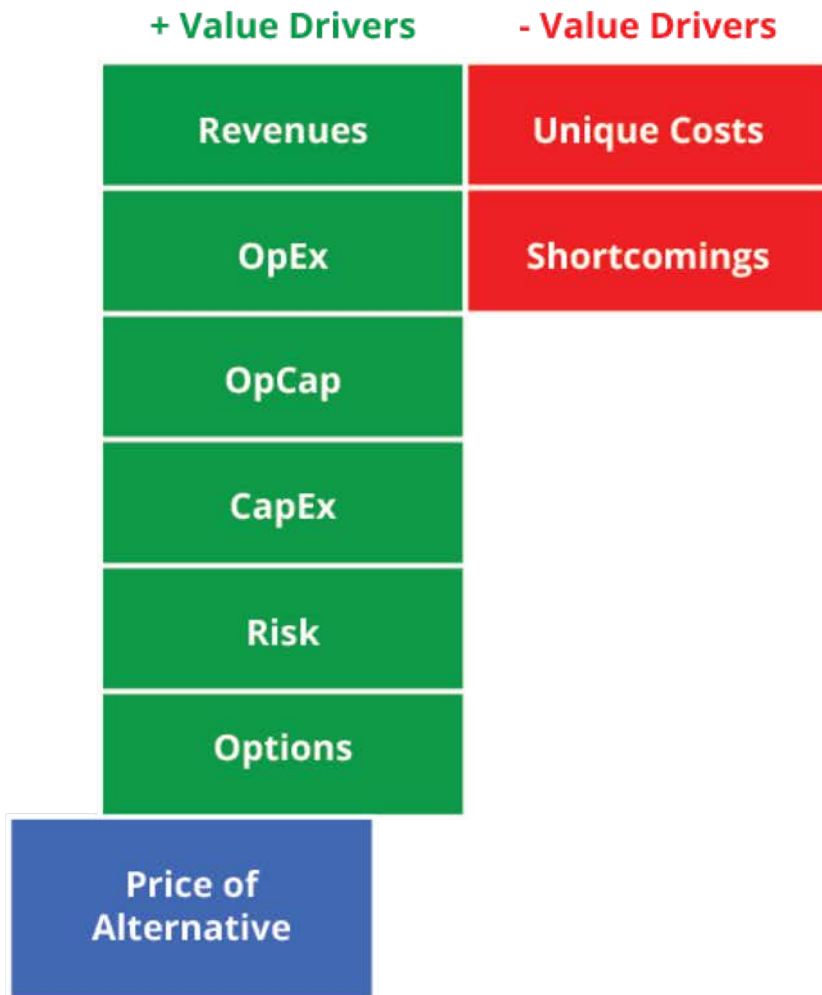
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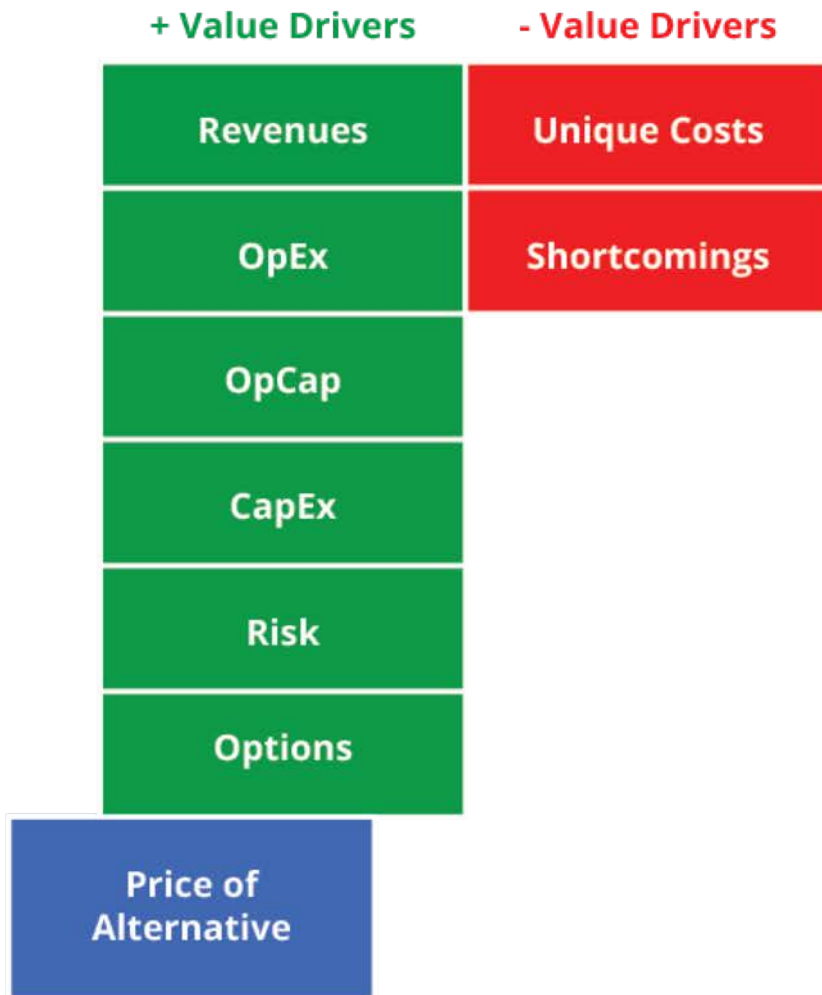
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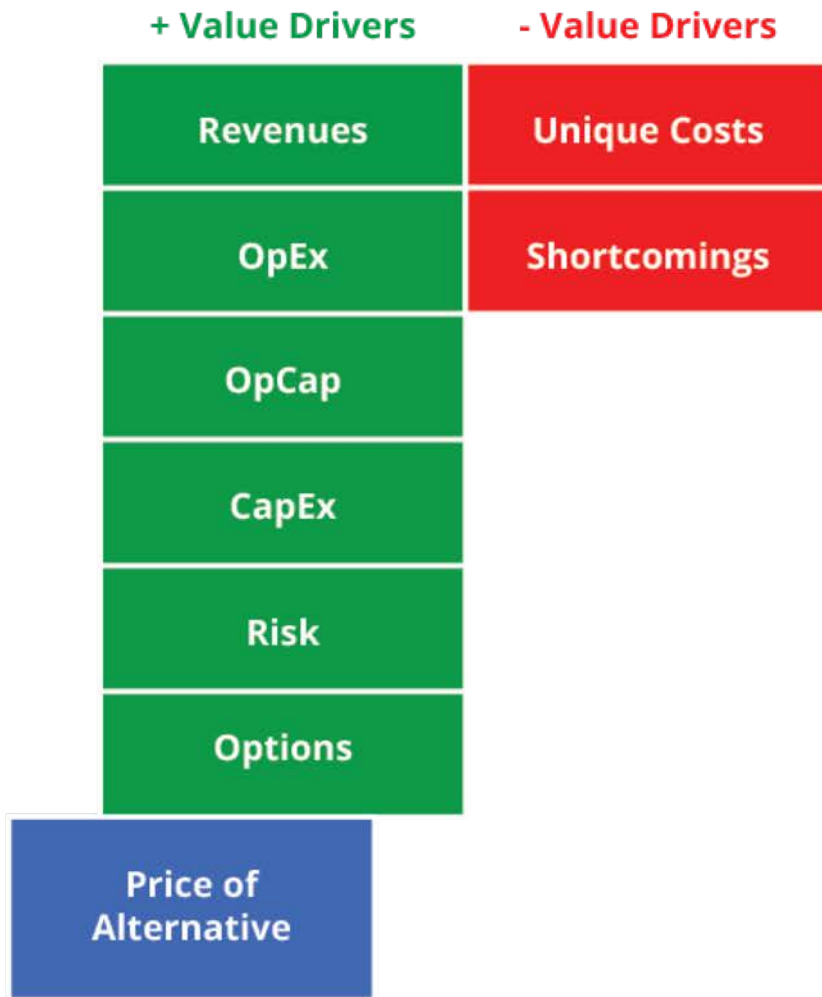
DIFFERENTIATION



DIFFERENTIATION



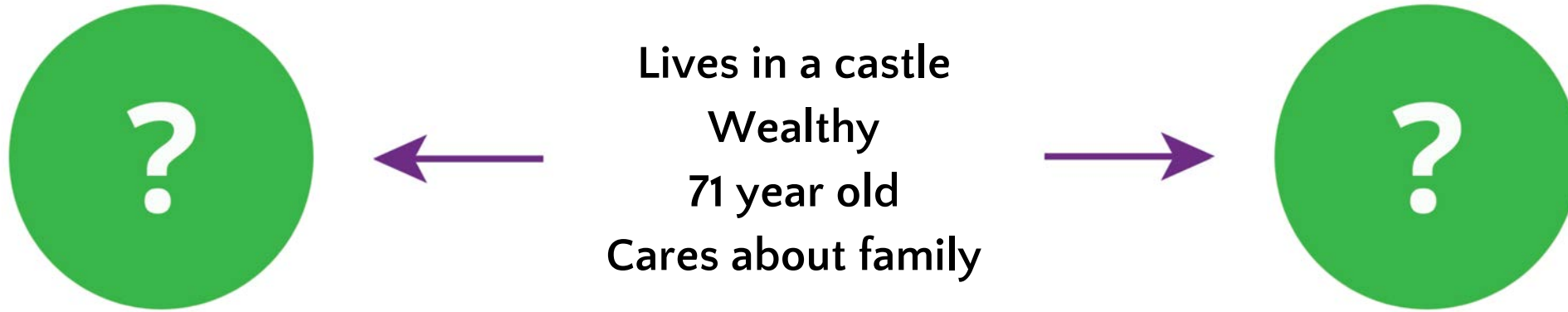
DIFFERENTIATION



DEMOGRAPHIC SEGMENTATION



- The simplest and most common form of segmentation is demographic (or firmographic)
- Do firms of a similar size, or in a similar industry, or in the same geography all buy in the same way?



DEMOGRAPHICS OFTEN FAIL



Ozzie Osborne



Lives in a castle
Wealthy
71 year old
Cares about family



Prince Charles

SEGMENTATION IS THE FOUNDATION



- Segmentation is the foundation of marketing
- The goal is to connect similar customers into groups to **simplify**
 - Marketing
 - Sales
 - Support
 - Pricing

Companies in the same segment should behave in similar ways and respond to similar value propositions

	Outside Sales	Inside Sales	On-Line Sales	Channel Sales
Single Buyer				
Driven by Business Buyer				
Driven by Technical Buyer				
Driven by Financial Buyer				
Driven by End User				
	Economic VD 1	Economic VD 2	Economic VD 3	Economic VD 4
Emotional VD 1				
Emotional VD 2				
Emotional VD 3				



A good segmentation brings together companies that

1. Buy in the same way
1. Get value in the same way
1. Will act as reference for each other
(especially important in launching a new offer)

Pricing Core Concepts



Pricing is where it all comes together

How you
create value?

Who you
sell to?

How you
communicate
value?

How you
capture value?



You cannot optimize for everything, a good pricing strategy requires clear alignment on goals

- Category growth (float all boats)
- Category share (get a bigger share of the pie)
- Revenue (top line growth)
- Gross Profit (net profit is impacted by too many other variables)
- Unit Economics (Lifetime Value of Customer)
- Facility Utilization (where this has a big impact on costs)



What are the pricing goals at your organization?

(What do you need to optimize?)



There are three basic pricing strategies



Skimming (or Premium)

Charge the maximum price that your pricing power allows (often in order to invest heavily in continuing innovation and value creation for customers)



Market Following

Price relative to a market leader



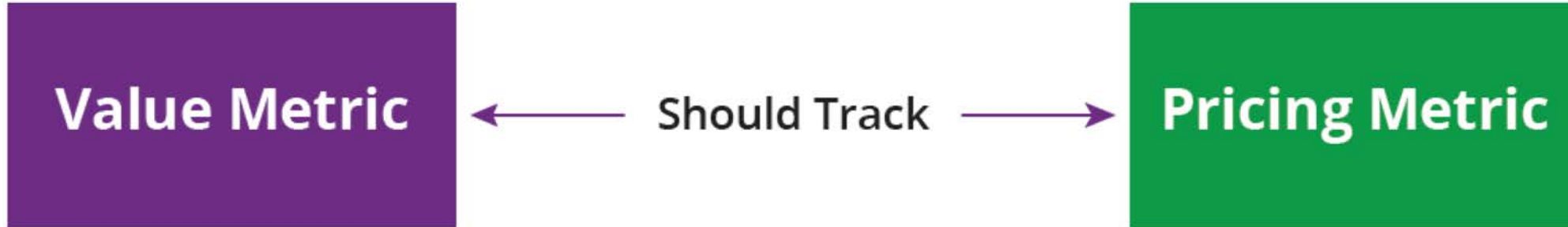
Penetration

Price as low as possible to grow the overall market or to increase category share

PRICING CONCEPTS – PRICING METHODS



MODEL	STRENGTHS	WEAKNESSES	USE WHEN
Cost Plus	Well Understood Ensures Profit	Generally Under Prices Costs Not Understood	Client Controls Deliverables
Market Following	Responsive to Market	Does Not Reflect Value Passive	Commodities
Input Based	Responsive to Market Shows Understanding of Customer Business	Lack of predictability (for both sides)	Market is very sensitive to external variables like energy prices or interest rates
Value Based	Most Flexible (supports different pricing strategies)	Requires deep understanding of customer business & upfront investment	Offers are differentiated



The unit of consumption of your product or service that tracks value created

The unit of consumption of your product or service that is used to set prices



A pricing model is the structure of how you price for each target segment ...

- What is priced?
- What are the pricing metrics?
- What are the fences (that guide buyers to the right offer?)
- What are the price guiderails and discounting policies?
- Is there a tiered offer? What are the functions of the tiers?

What are the actual prices?

How is price communicated?

How are value and price connected and tracked?



Power by the Hour (PBH)

Performance-based Logistics (PBL)

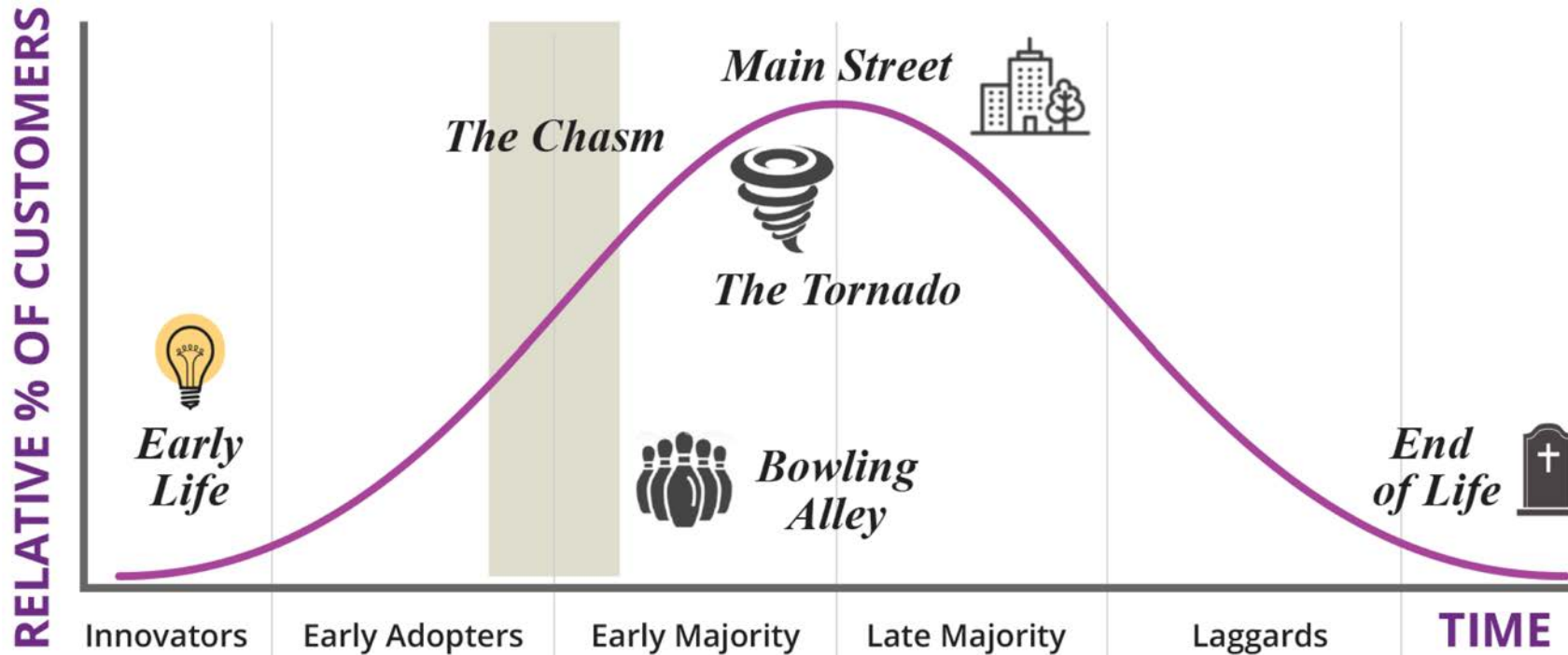
- Shared risk and incentives between suppliers and customers

Reference source: <http://panmore.com/general-electric-ge-generic-strategy-intensive-growth-strategies>



PRICING CONCEPTS – PRICING OVER THE LIFECYCLE 1

Pricing changes over the Moore technology lifecycle



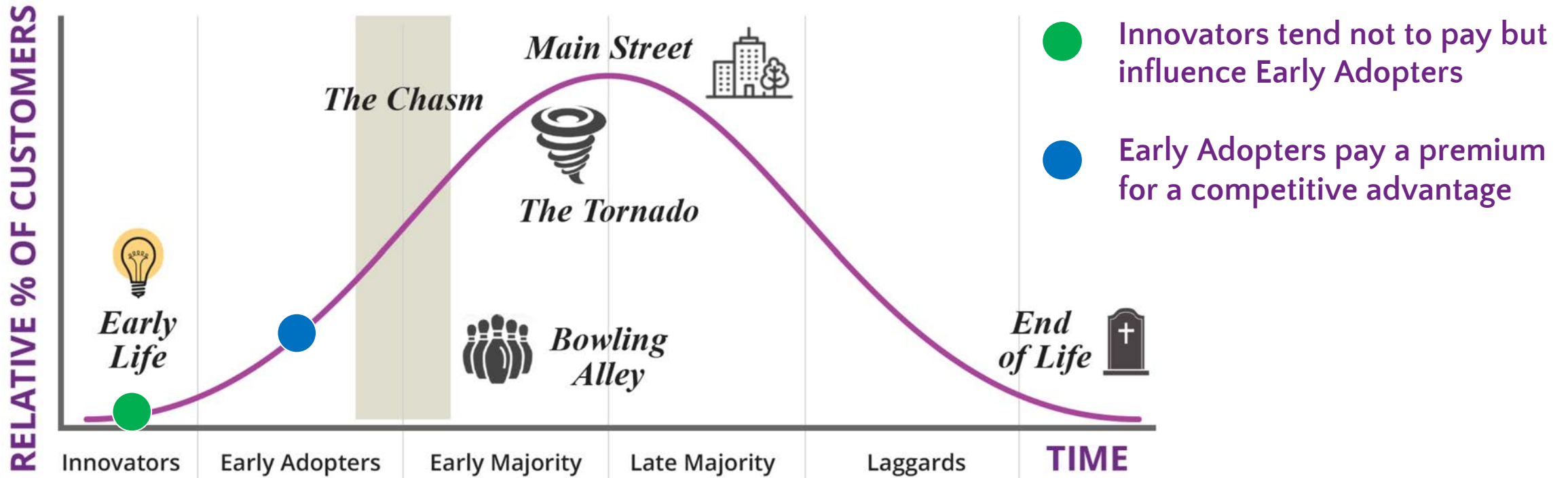
Technology Adoption Life Cycle

www.SolutionMarketingBlog.com
Sources: E.M. Rogers, G.Moore

PRICING CONCEPTS – PRICING OVER THE LIFECYCLE 2 (Initial Phases)



Innovators and Early Adopters Buy for Different Reasons



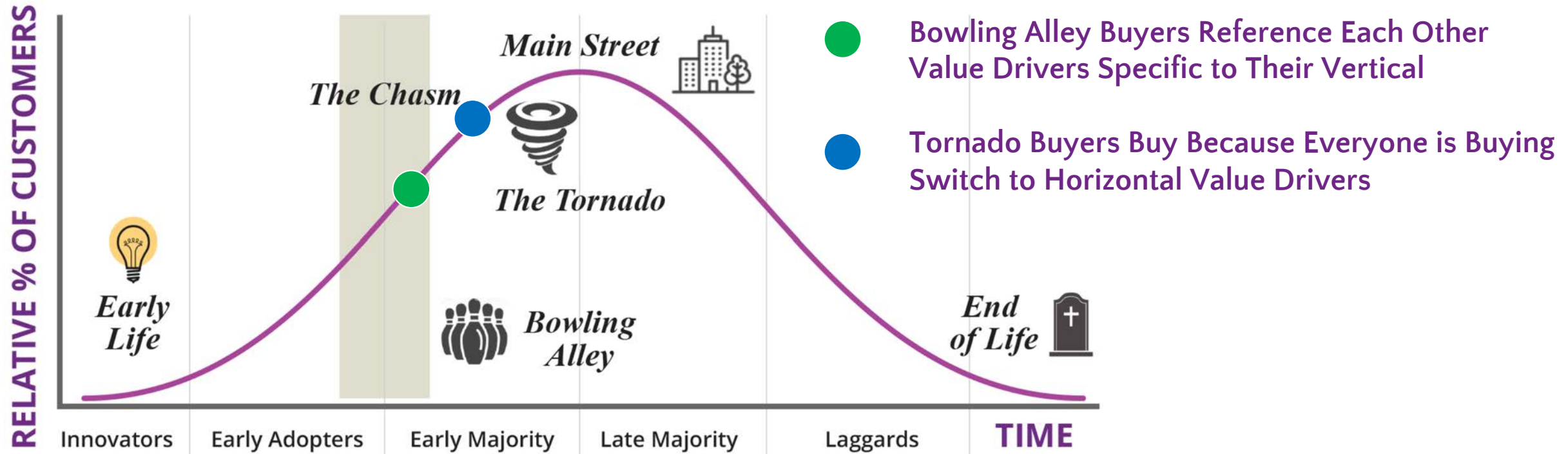
Technology Adoption Life Cycle

www.SolutionMarketingBlog.com
Sources: E.M. Rogers, G.Moore



PRICING CONCEPTS – PRICING OVER THE LIFECYCLE 3 (Early Majority)

Value Driver Structure Changes Between Bowling Alley and Tornado



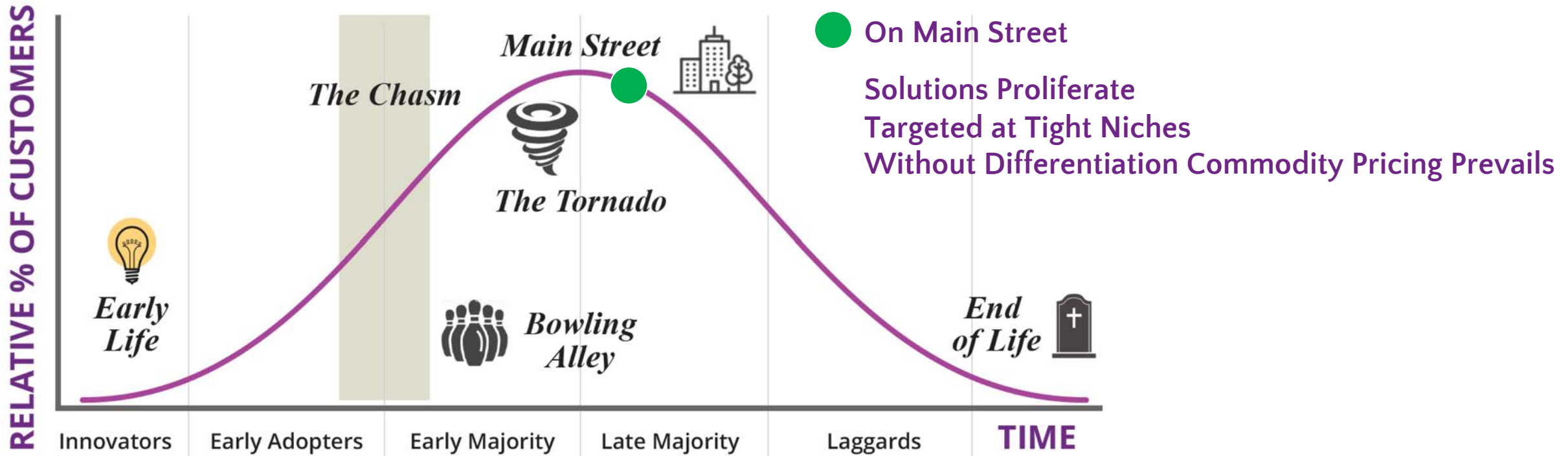
Technology Adoption Life Cycle

www.SolutionMarketingBlog.com
Sources: E.M. Rogers, G.Moore



PRICING CONCEPTS – PRICING OVER THE LIFECYCLE 4 (Late Majority)

Main Street B2B Buyers Are More Economic Value Driven



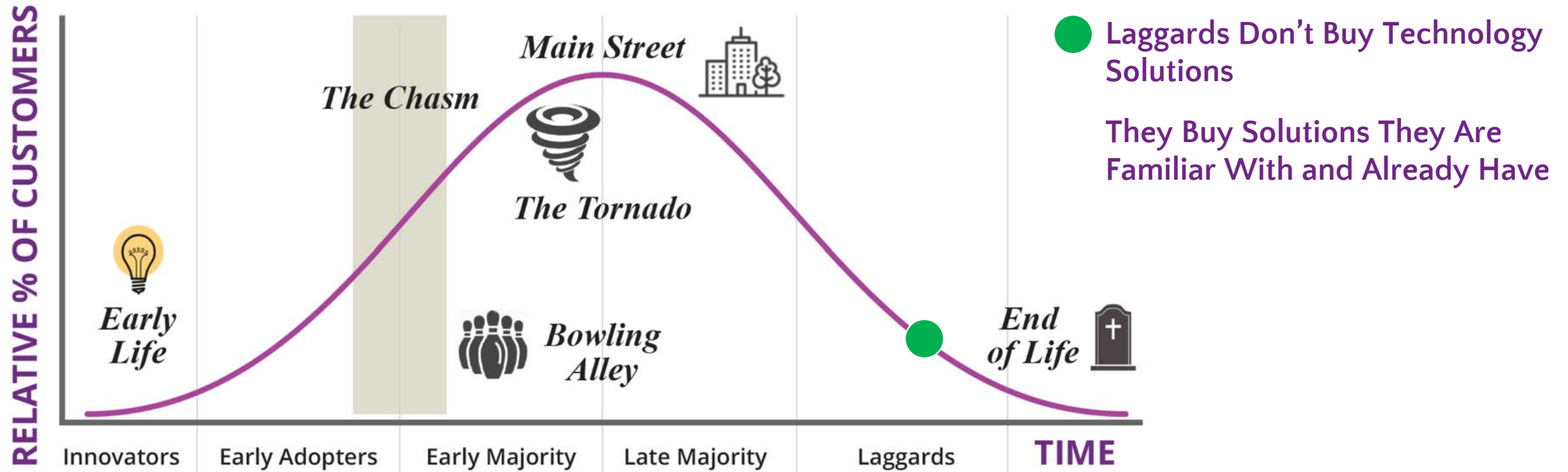
Technology Adoption Life Cycle

www.SolutionMarketingBlog.com
Sources: E.M. Rogers, G.Moore



PRICING CONCEPTS – PRICING OVER THE LIFECYCLE 5 (Laggards)

Laggards Buy Technology Bundled Into Other Solutions They Already Have



Technology Adoption Life Cycle

www.SolutionMarketingBlog.com
Sources: E.M. Rogers, G.Moore



- Market Segmentation demonstrates your understanding your market opportunity...
 - Patterns of needs, attitudes, behaviors
 - To identify customers who value your differentiation and the value they will receive
 - Underpins calculation of market size
- Customer Targeting shows you've identified your most attractive segment
 - Prioritizes your marketing investment (financial and effort)
 - Understand your customer's buying process





- Unique and Differentiated Value Proposition
 - Determines your ability to realize your potential earnings
 - Is always relative to the next best competitive alternative. Investors want to know that you have done your competitive analysis.



- Market Sizing
 - Provides an indication of potential earnings
 - Does your TAM, SAM, SOM justify your valuation



- Customer Traction “quantitative evidence of market demand”
 - Validation that value is being created



- Price Optimization
 - Pricing is the lever to win higher profits, revenue or market share
 - Connecting to your buyers emotional and economic needs
 - The correct pricing metrics helps you
 - to monitor price acceptance
 - guide behavior across pricing tiers, and
 - be better prepared for competitive positioning



- Create and capture value for customers and your investors—all stakeholder
- Pricing is where your marketing strategy gets real
- You and your customer need to agree on price to win a sale

Price to create and capture value for all



Thank you



IBBAKA MISSION

We enable industry leaders to continue to stay ahead of their competition. By connecting market insights to talent insights through the shared lens of economic, emotional and community value, Ibbaka leads its customers to sustainable growth. Executives are looking for data-driven insights to make key decisions to drive sustainable growth. Our platforms give innovators and category creators the ability to make choiceful investments as they transform the way in which they conduct business to create higher levels of value and differentiation.

