

# Ibbaka Powers Growth





**New  
Ventures BC**



# Introduction to Value-based Methodologies

## Pricing for Innovation

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## TODAY'S PRESENTERS



### **Rashaqa Rahman**

Principal Consultant

Rashaqa plays a critical role in enabling Ibbaka clients recognize the value of their go-to-market and pricing investments. She works closely with clients to develop in-depth market segmentation and pricing architecture. Rashaqa has extensive experience in developing tools that help Ibbaka clients connect their strategy to execution.

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



### **Jessie Tai**

Project Manager

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](#)



- **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 market segments

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

## FRAMING – THE VALUE CYCLE

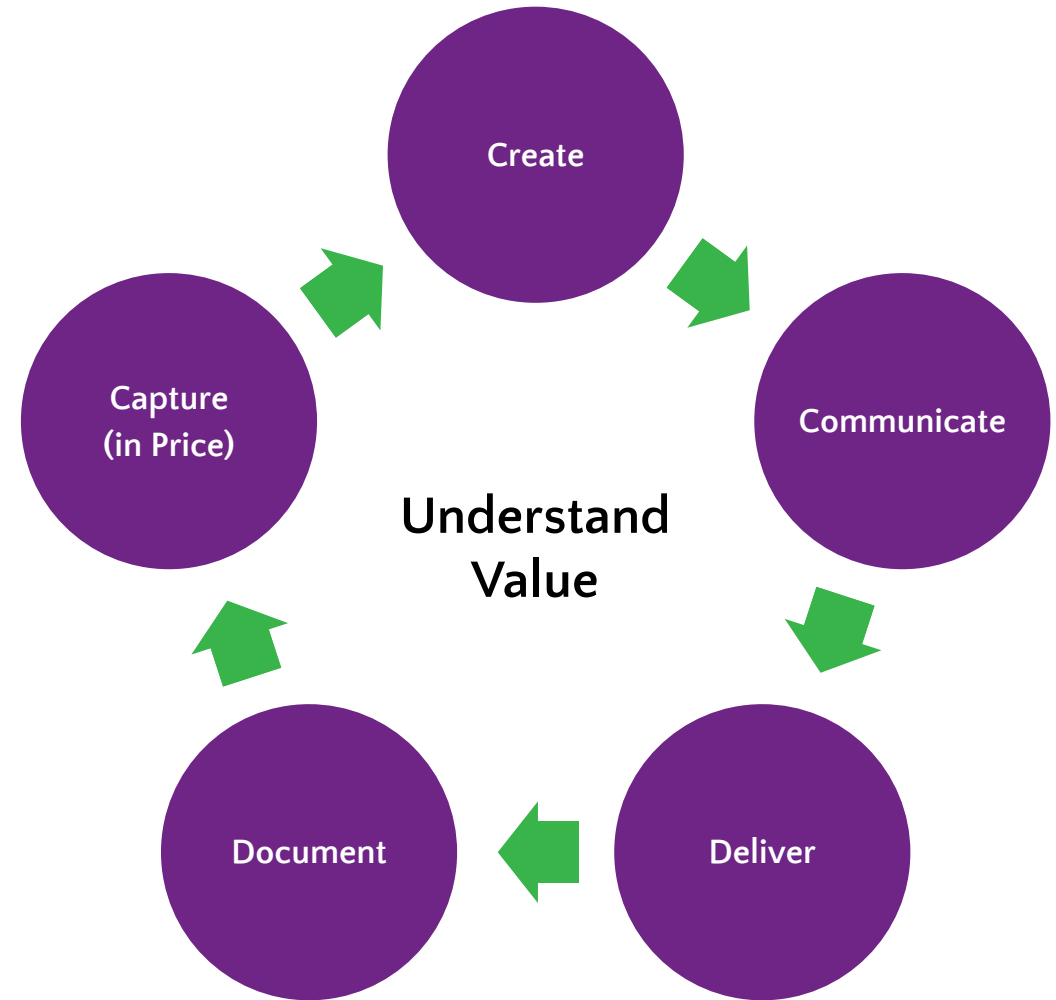


Fairness, transparency and consistency are a product of the value cycle

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

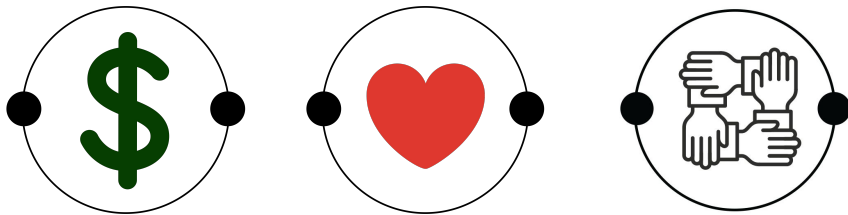






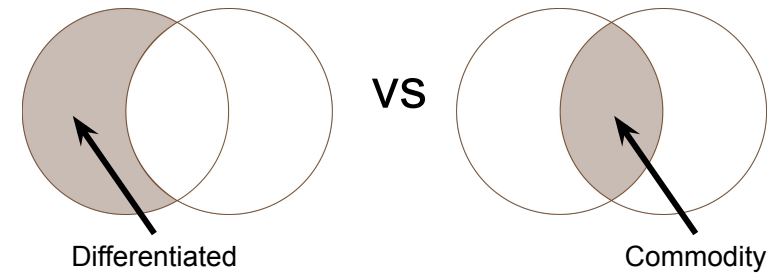
### Value-based pricing factors in

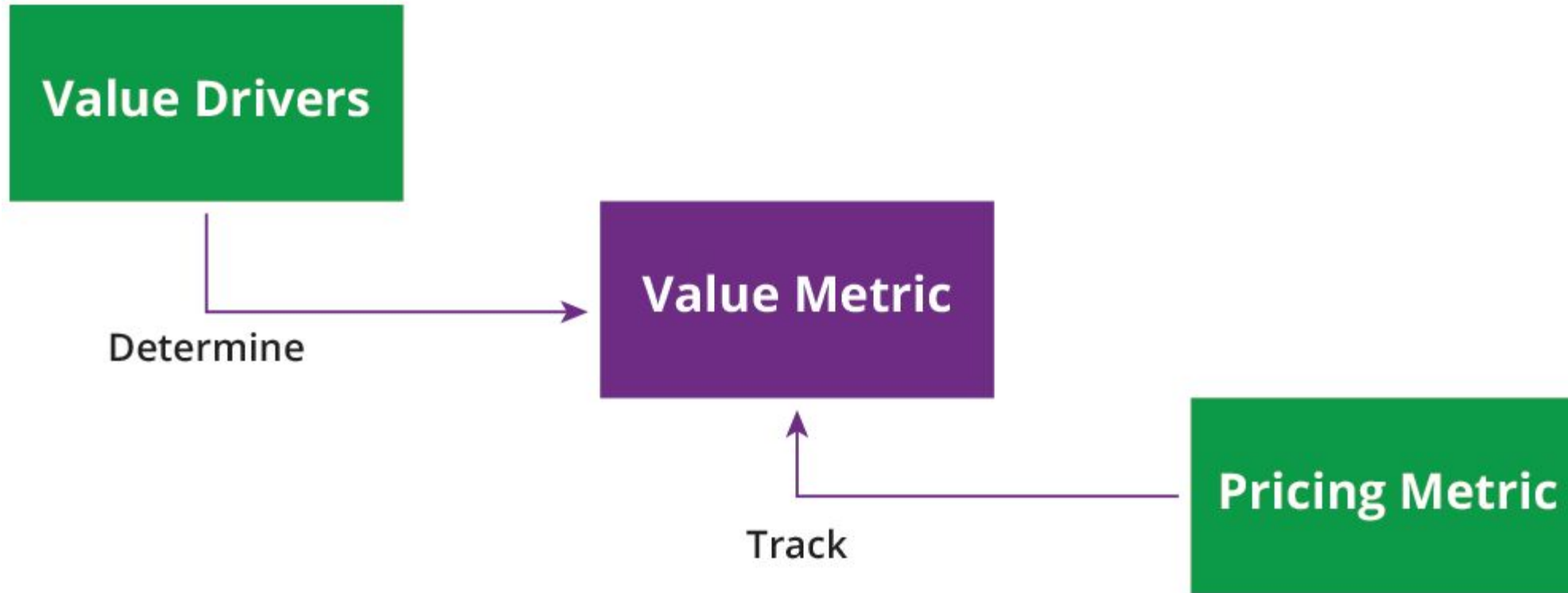
- Economic value drivers
- Emotional value drivers
- Community value drivers

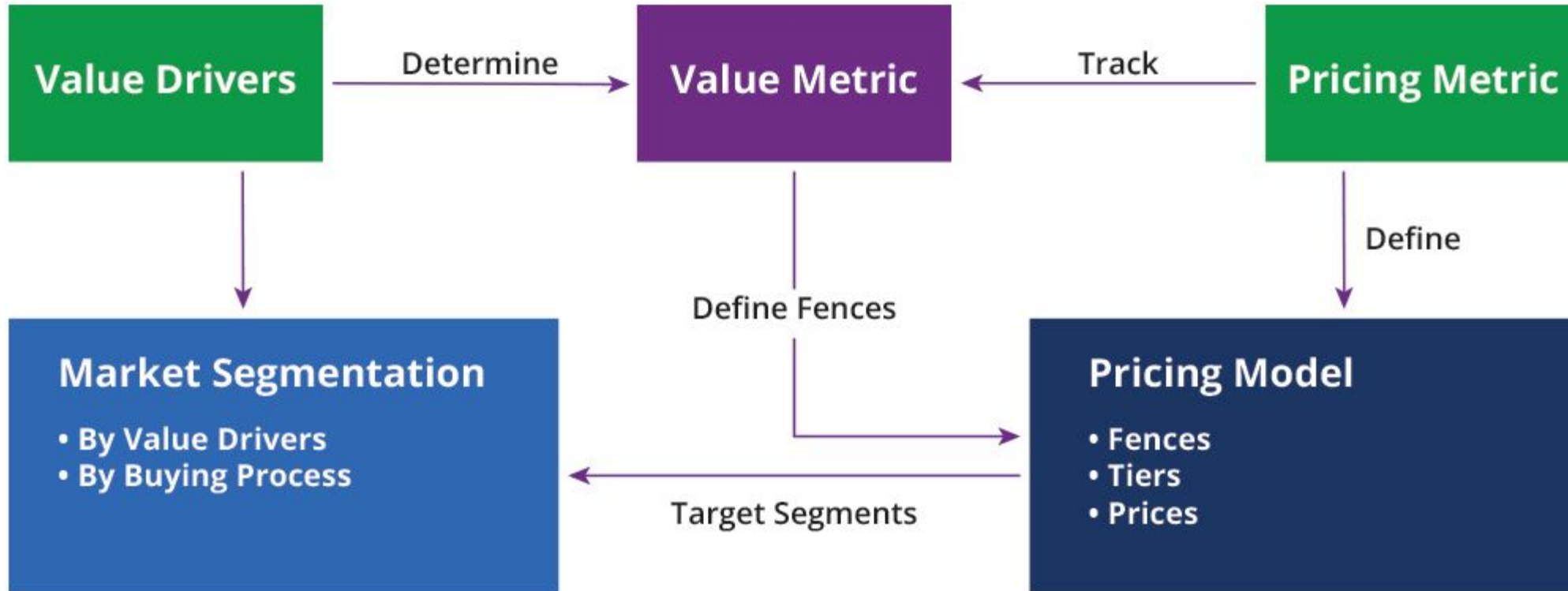


### Decomposes value into two components

- Differentiated
- Undifferentiated or commodity







# Value Drivers



Understanding value is the foundation for

- Market Segmentation



- Value-Based Pricing



- Marketing Strategy

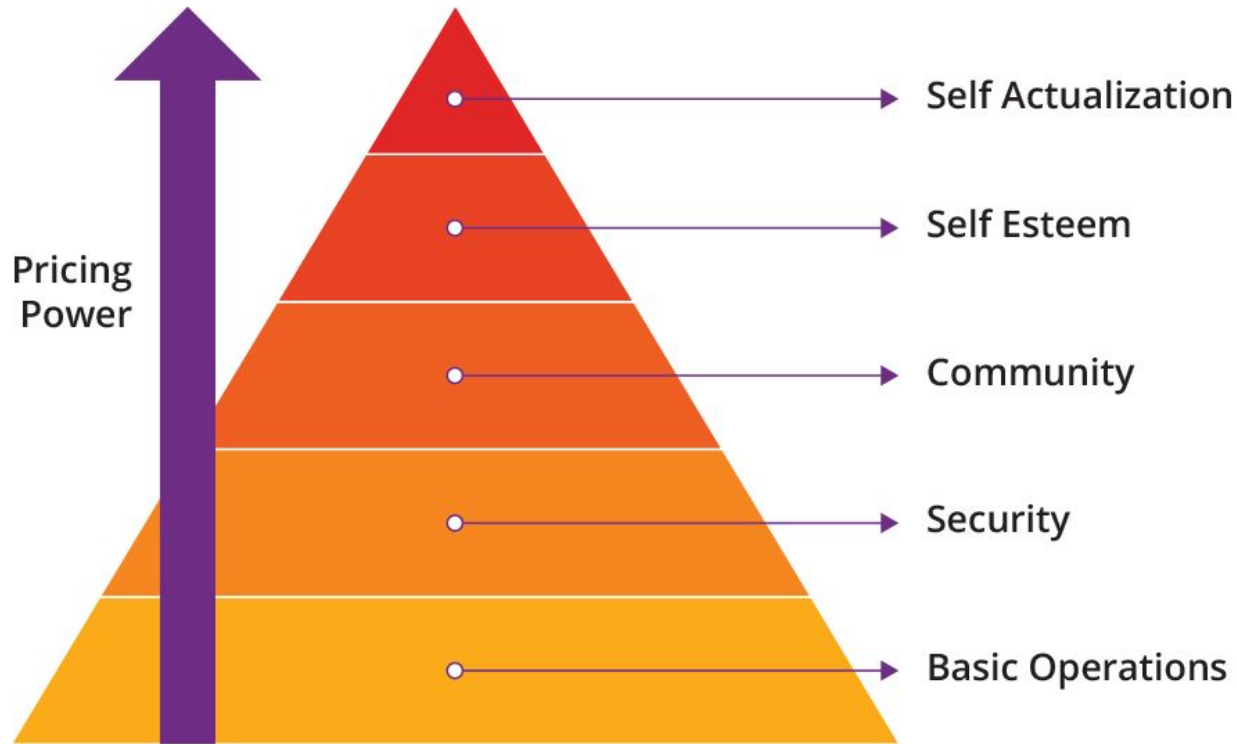


- Value-Based Sales



**Without value  
There is nothing to price**

**Need to understand  
Value Drivers**



### Maslow's Hierarchy

Provides a good way to frame emotional value

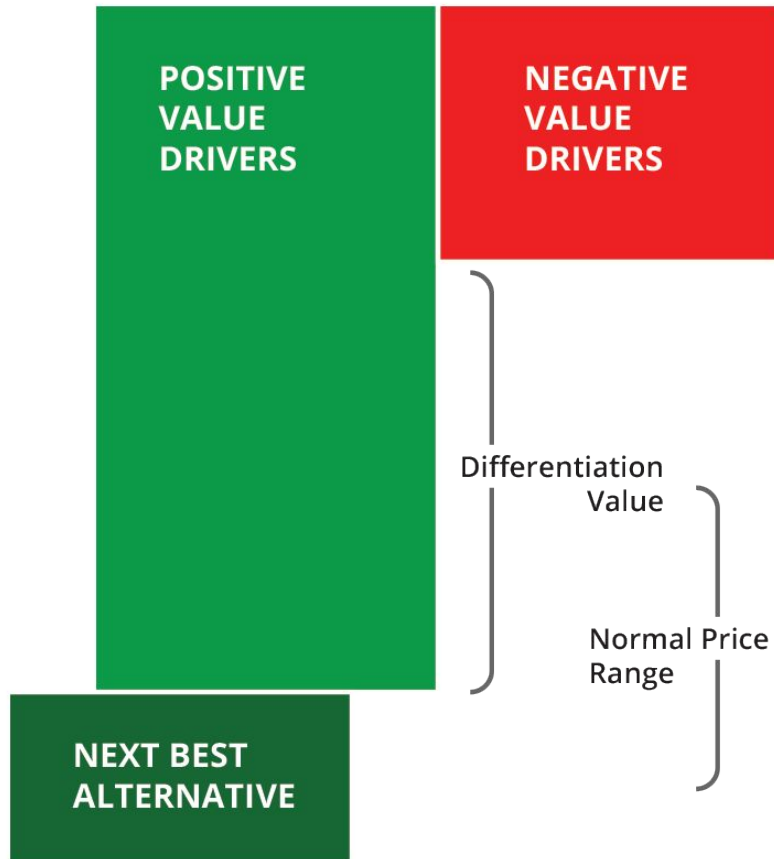
Basic functionality (that drives most economic value) is not a powerful way to frame emotional value

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

## COMMUNITY VALUE



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 and basic human rights	Enabling life, equality, 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
Environment and Sustainability	Protecting and having a positive impact on the environment; promotes sustainable development	Sustainable practices, conservation initiatives



### Economic Value Estimation (EVE)

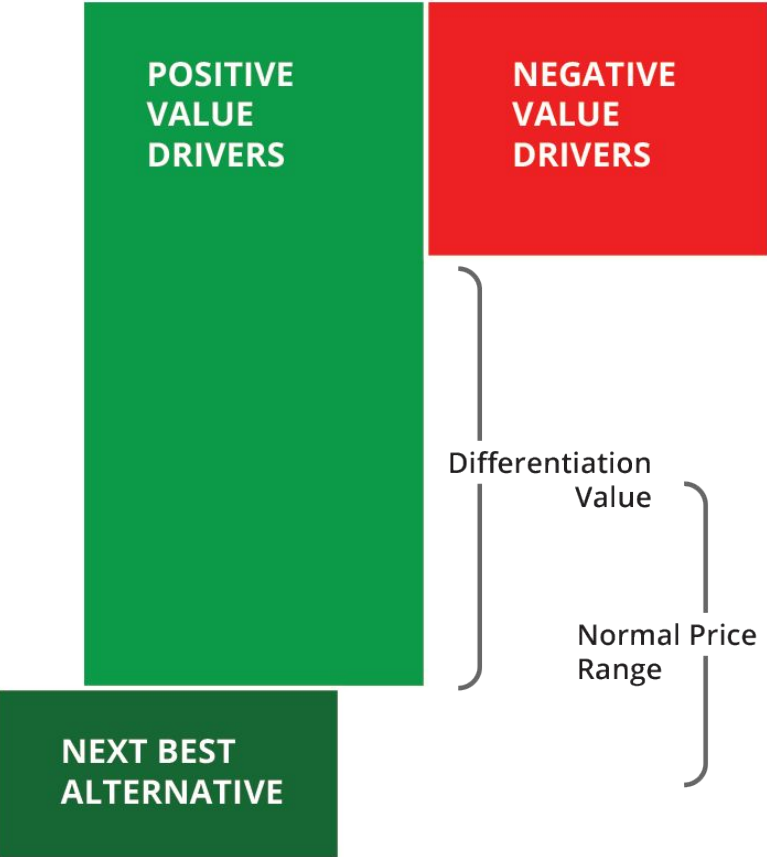
Developed by Tom Nagle

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

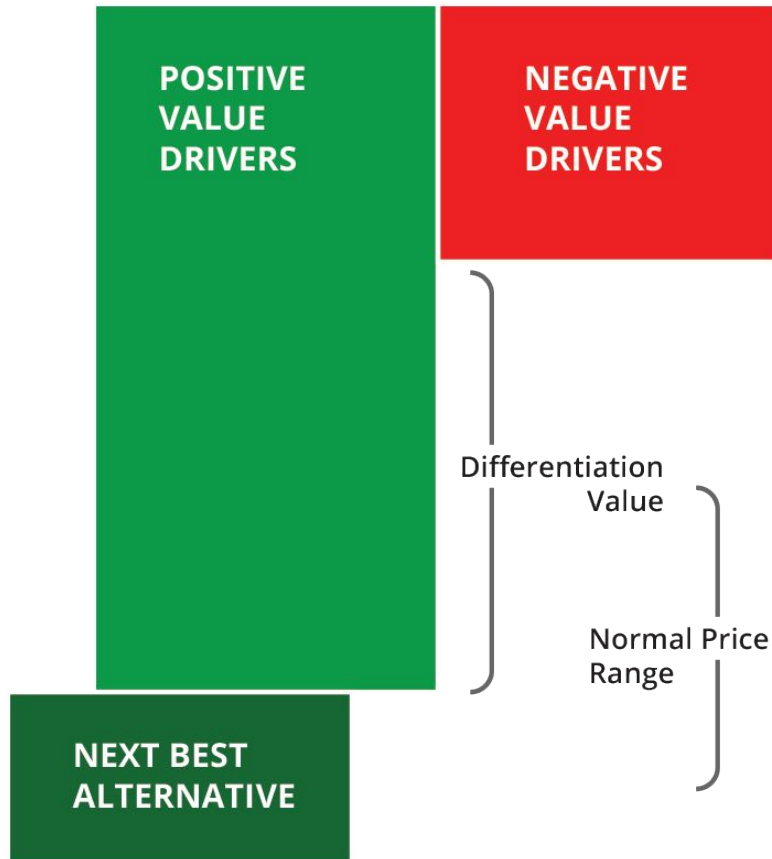
Always consider your own shortcomings and unique costs relative to the alternative



# ECONOMIC VALUE – POSITIVE ECONOMIC VALUE DRIVERS



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



### Negative economic value drivers are:

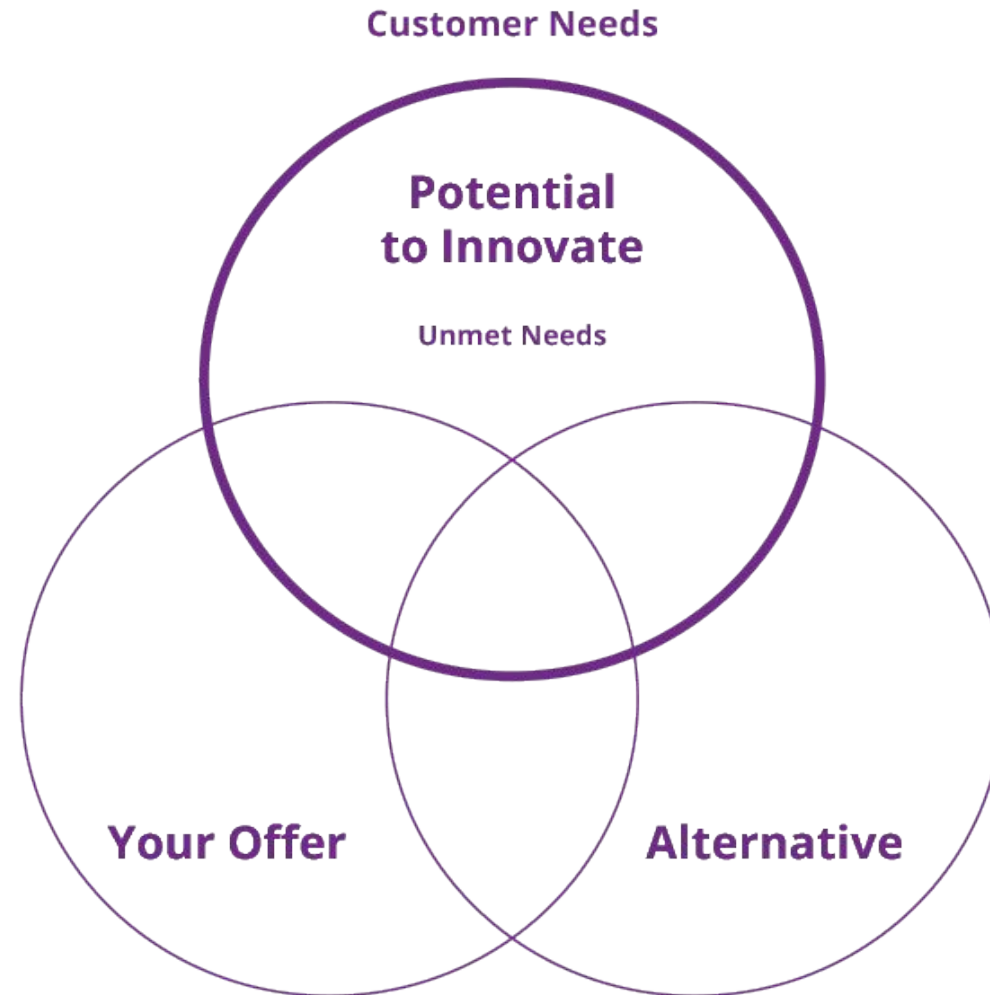
- **Your shortcomings** compared to the next best alternative (that is, your competitor's differentiation)
- The **unique costs** associated with your offer, such as switching costs

# Differentiation & Segmentation

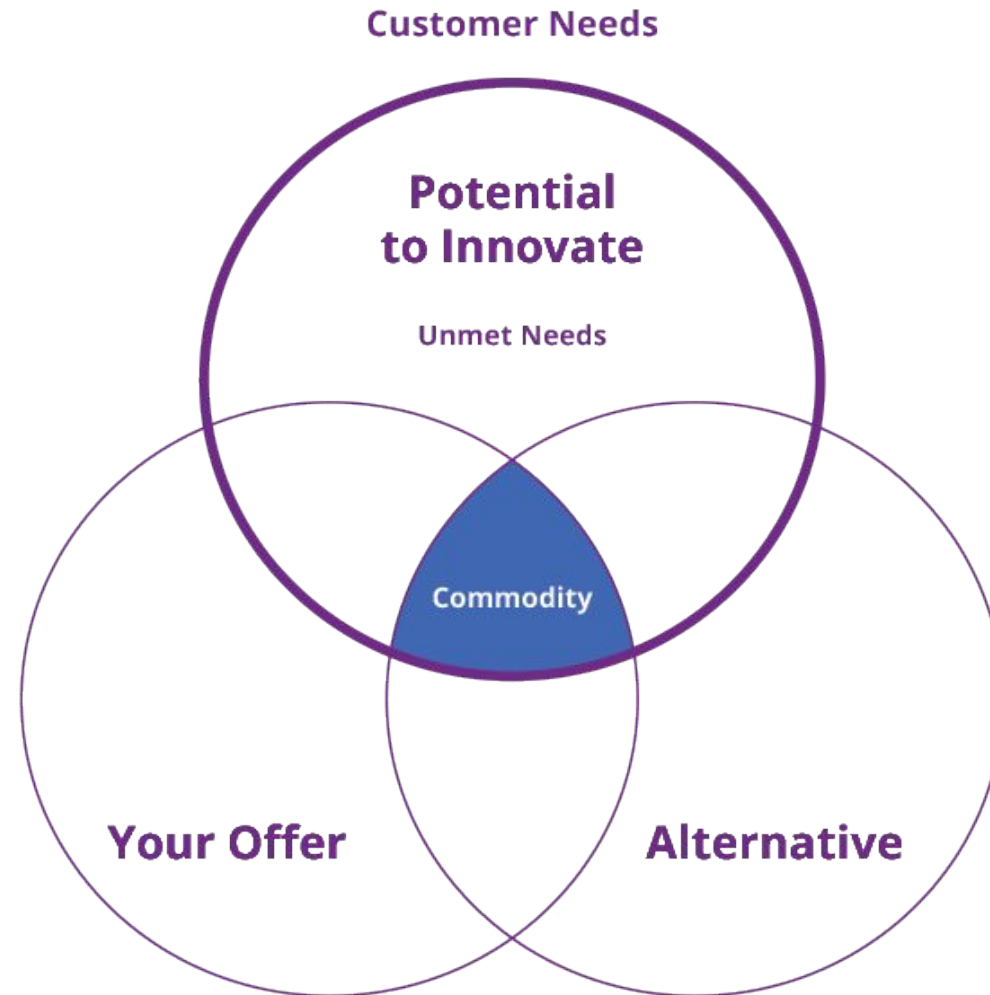
# DIFFERENTIATION



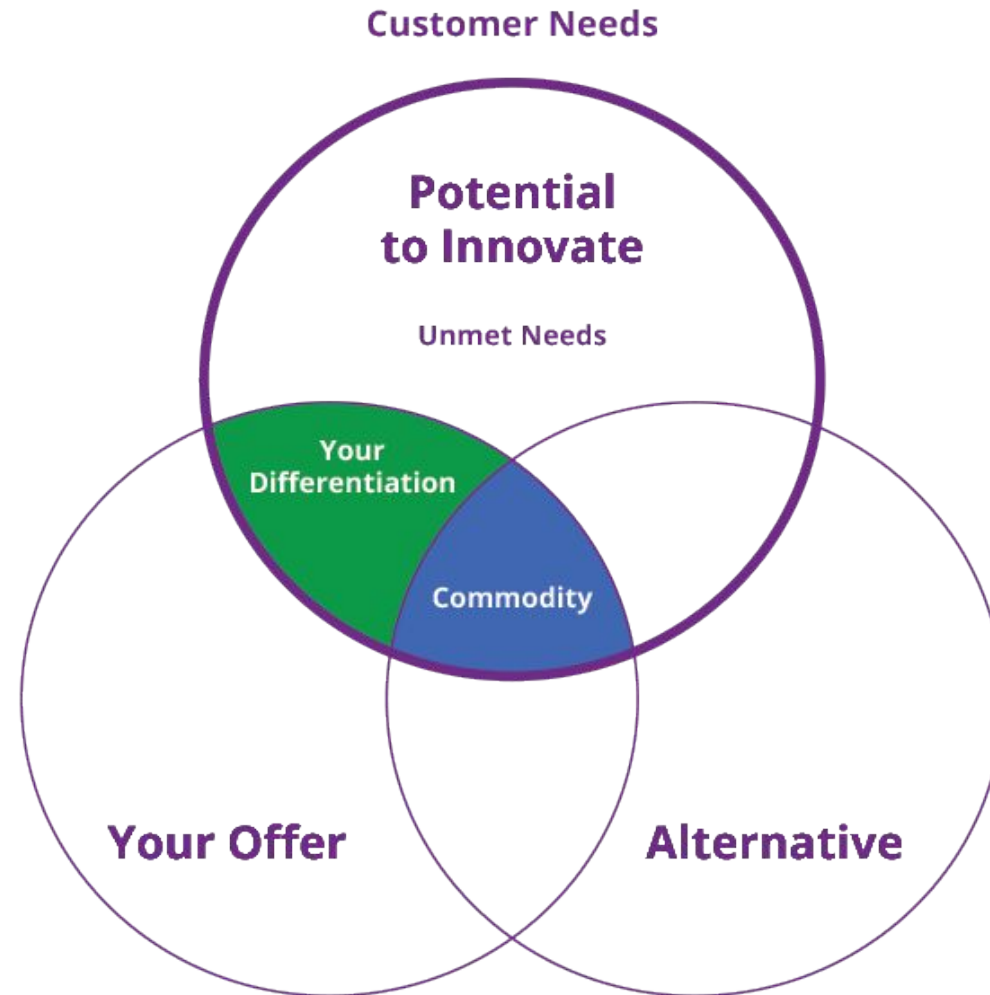
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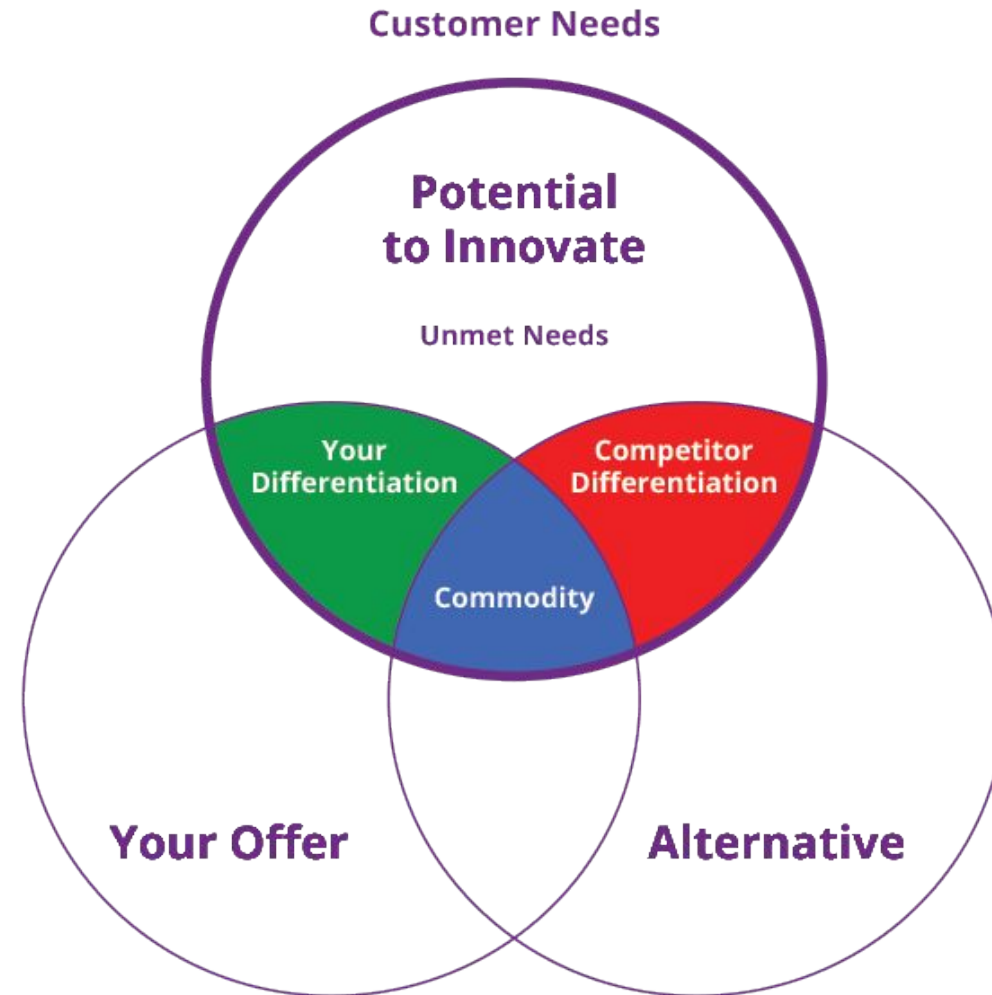
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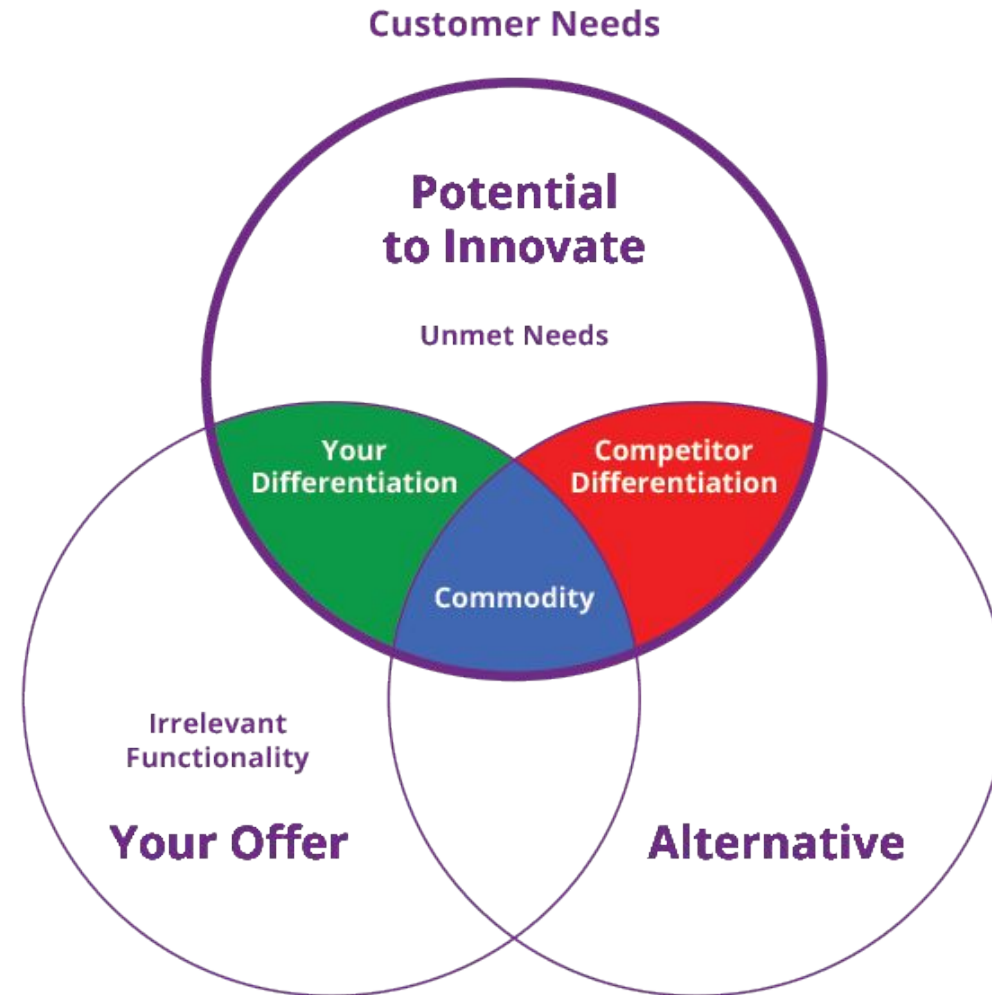
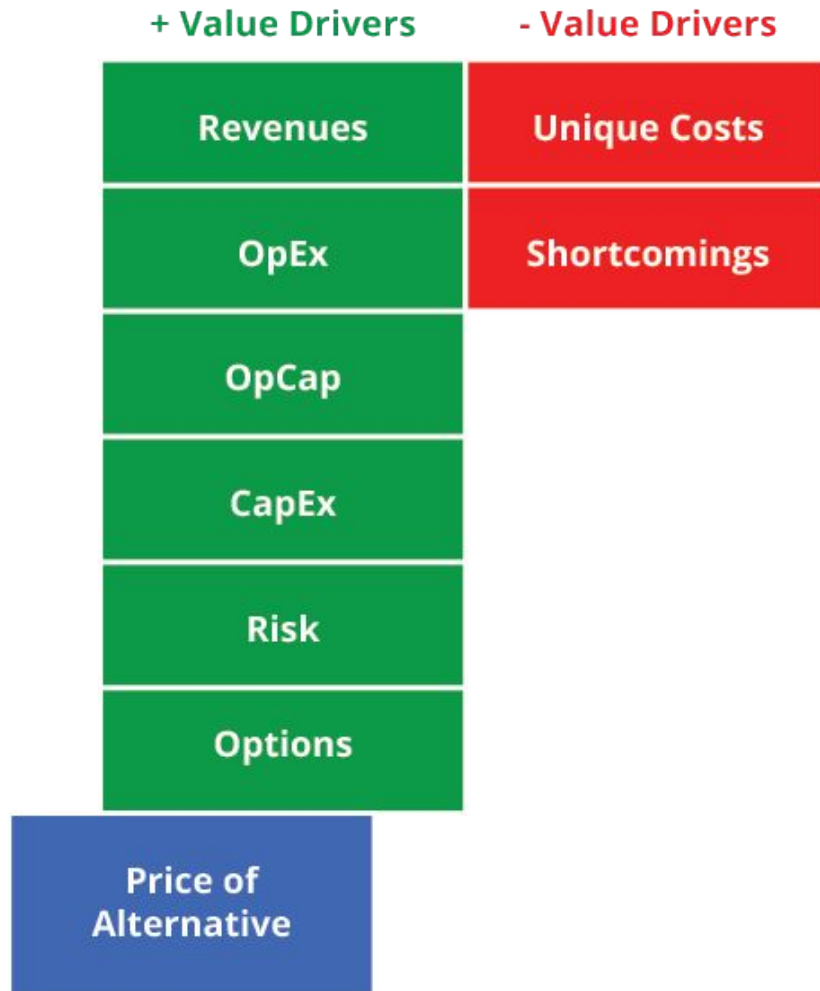


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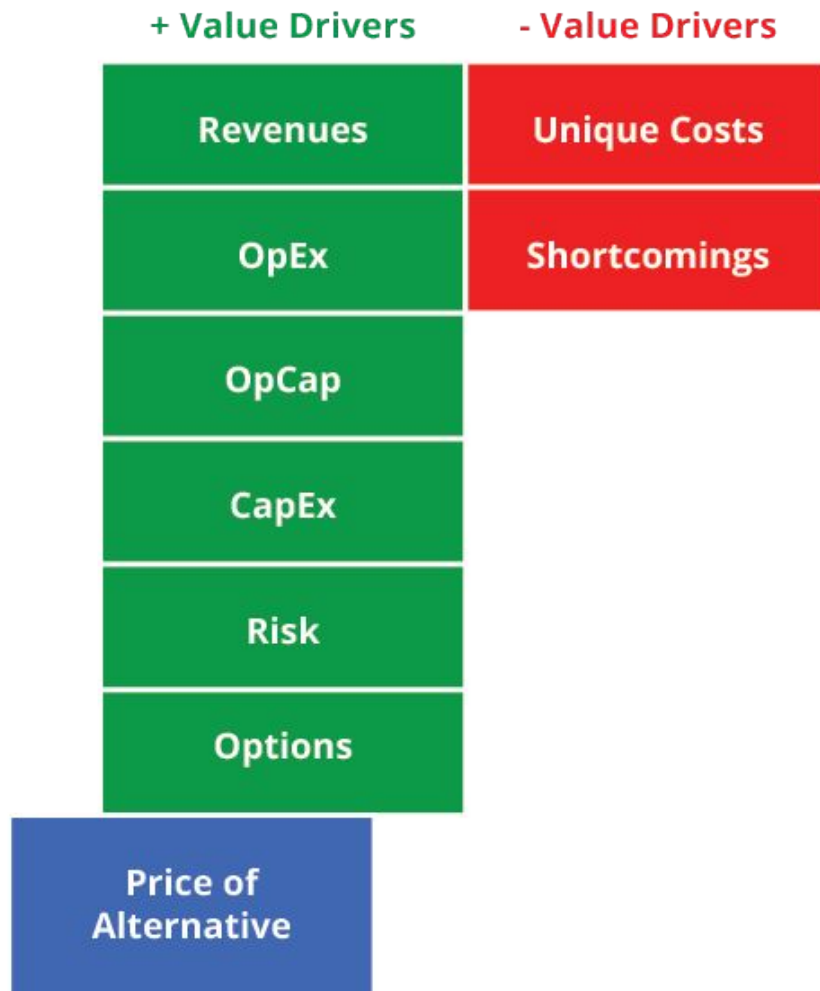




# DIFFERENTIATION



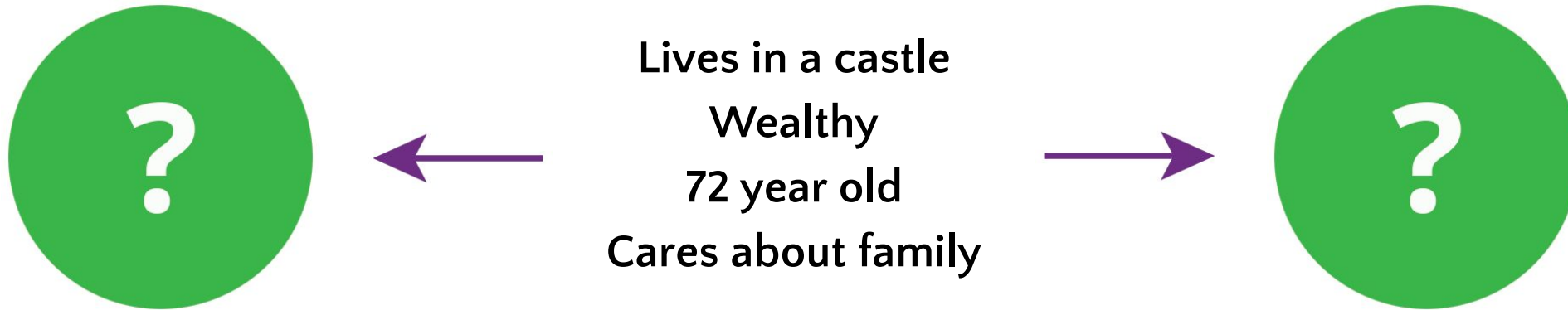
# DIFFERENTIATION



## 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  
73 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
2. Get value in the same way
3. Will act as reference for each other  
(especially important in launching a new offer)

**Critical for pricing strategy**

# 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
- 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



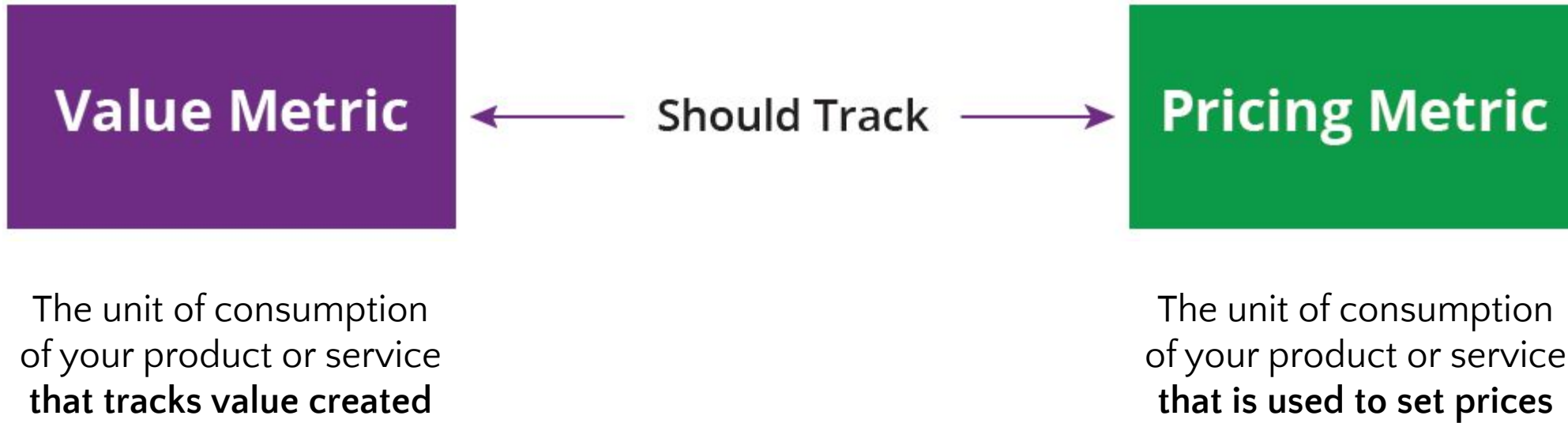
#### **Penetration**

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

## PRICING CONCEPTS – PRICING METHODS



MODEL	STRENGTHS	WEAKNESSES	USE WHEN
<b>Cost Plus</b>	Well Understood Ensures Profit	Generally Under Prices Costs Not Understood	Client Controls Deliverables
<b>Market Following</b>	Responsive to Market	Does Not Reflect Value Passive	Commodities
<b>Input Based</b>	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
<b>Value Based</b>	Most Flexible (supports different pricing strategies)	Requires deep understanding of customer business & upfront investment	Offers are differentiated





**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 guide rails 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)

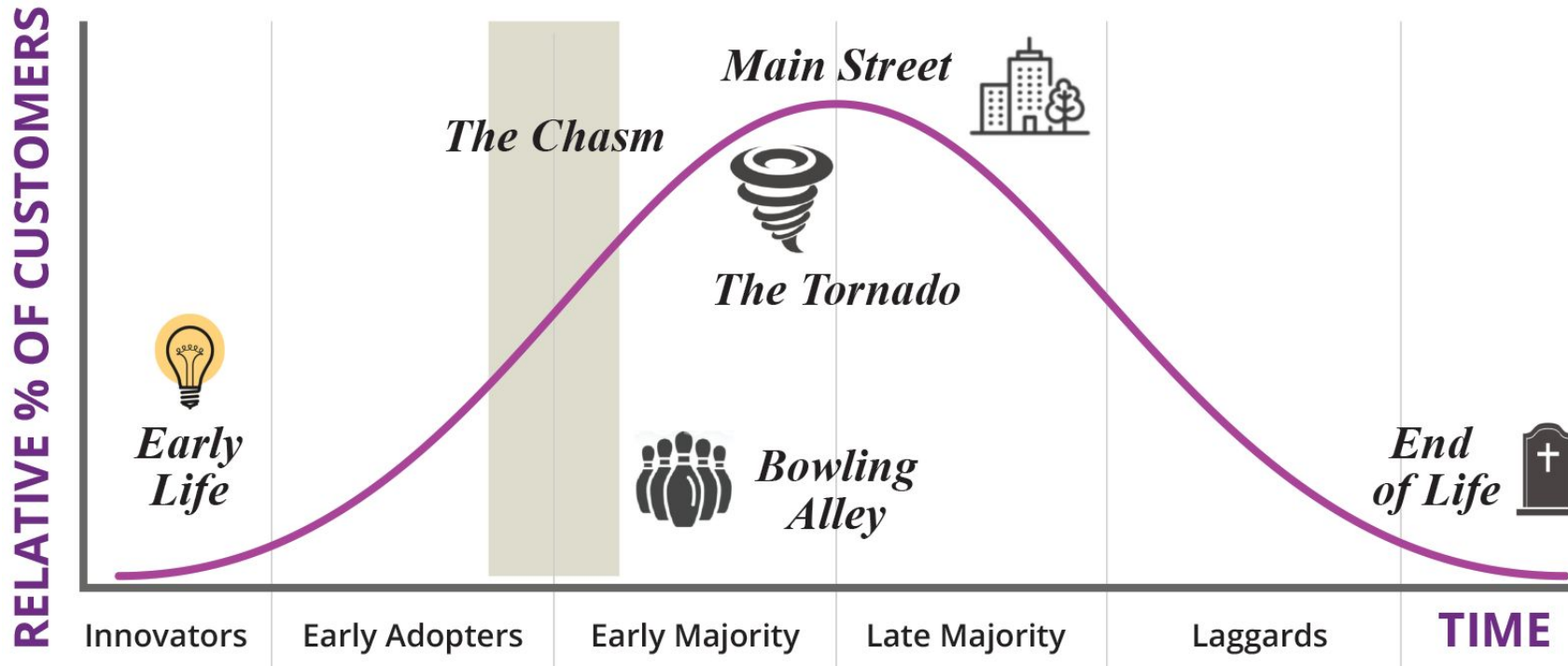
- Shared risk and incentives between suppliers and customers

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

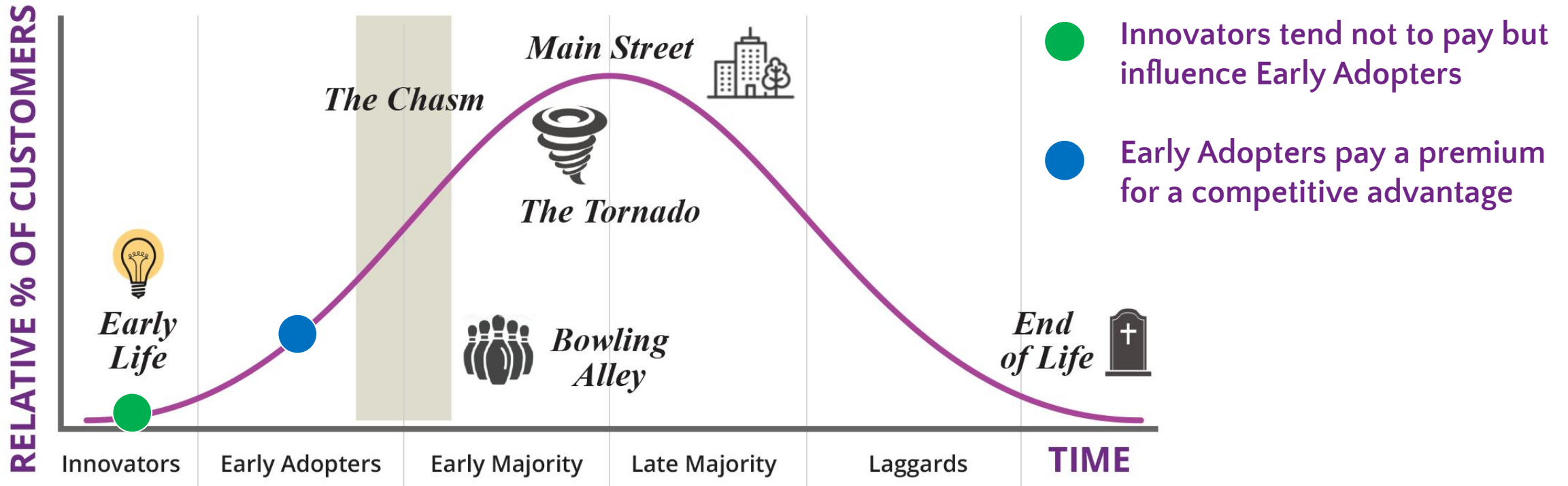
[www.SolutionMarketingBlog.com](http://www.SolutionMarketingBlog.com)  
Sources: E.M. Rogers, G.Moore



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



Innovators and Early Adopters Buy for Different Reasons



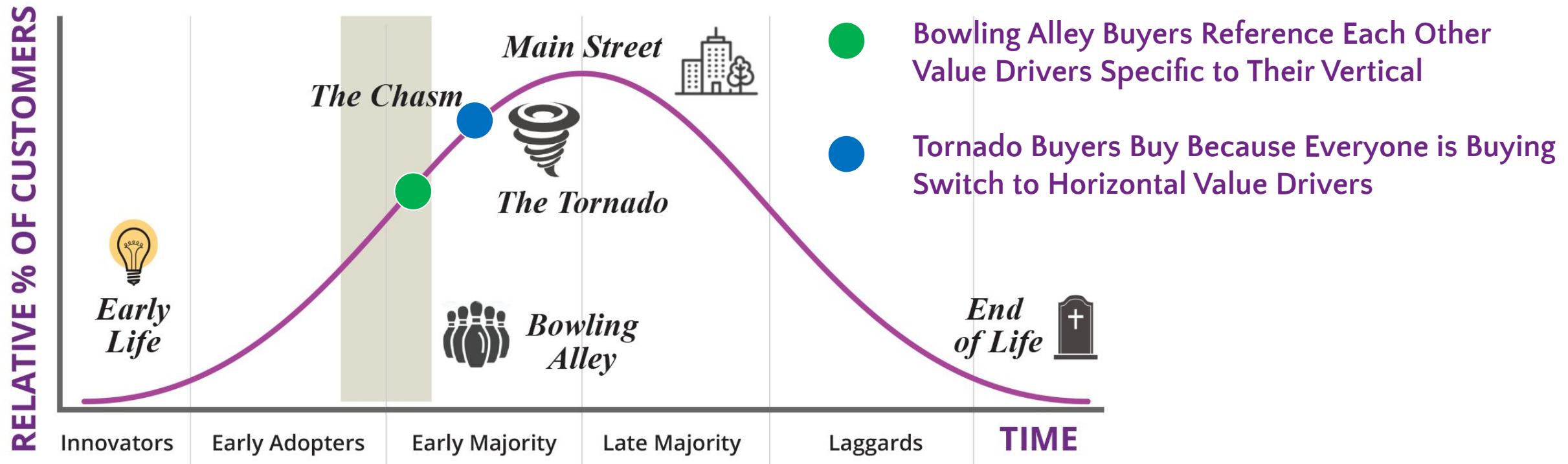
## Technology Adoption Life Cycle

[www.SolutionMarketingBlog.com](http://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



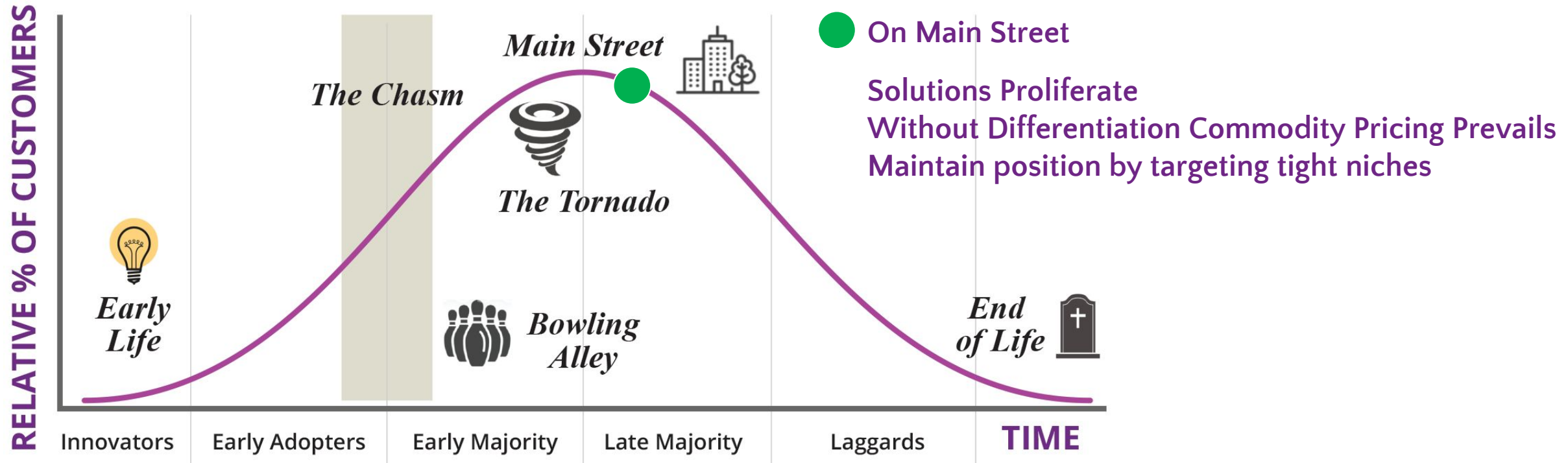
## Technology Adoption Life Cycle

[www.SolutionMarketingBlog.com](http://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



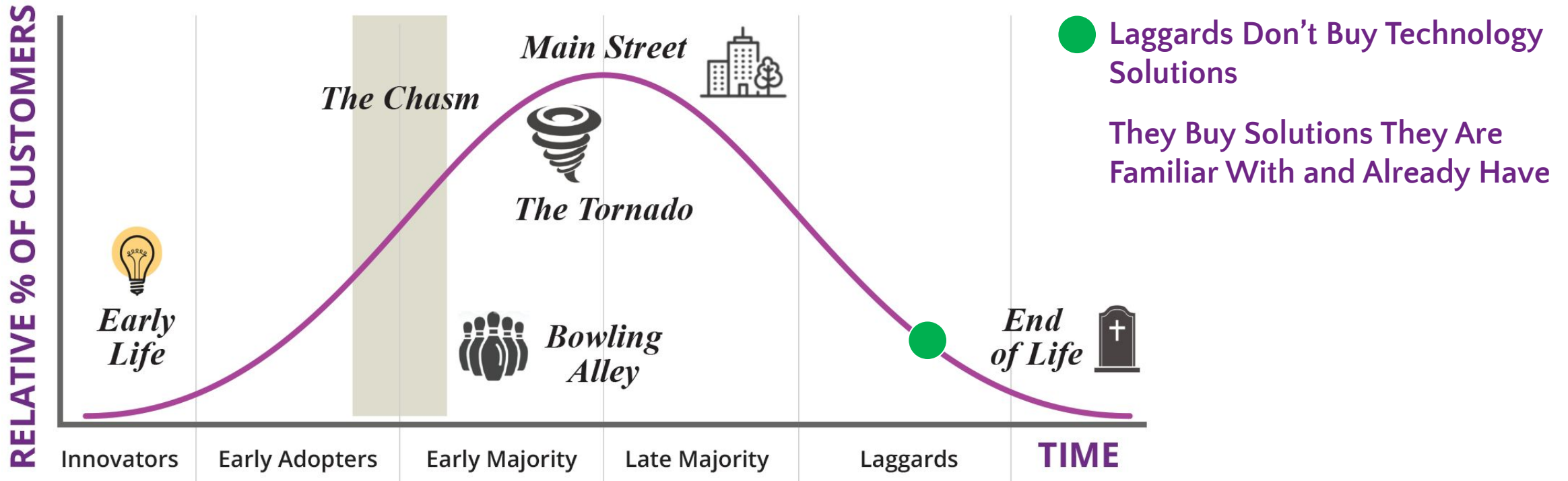
## Technology Adoption Life Cycle

[www.SolutionMarketingBlog.com](http://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](http://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





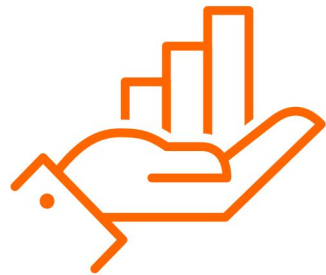
- Unique and Differentiated Value Proposition
  - Determines your ability to realize your potential earnings
  - Is always relative to the next best competitive alternative. Investors want to know that you have done your competitive analysis.



- 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 performance. 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.

