



New
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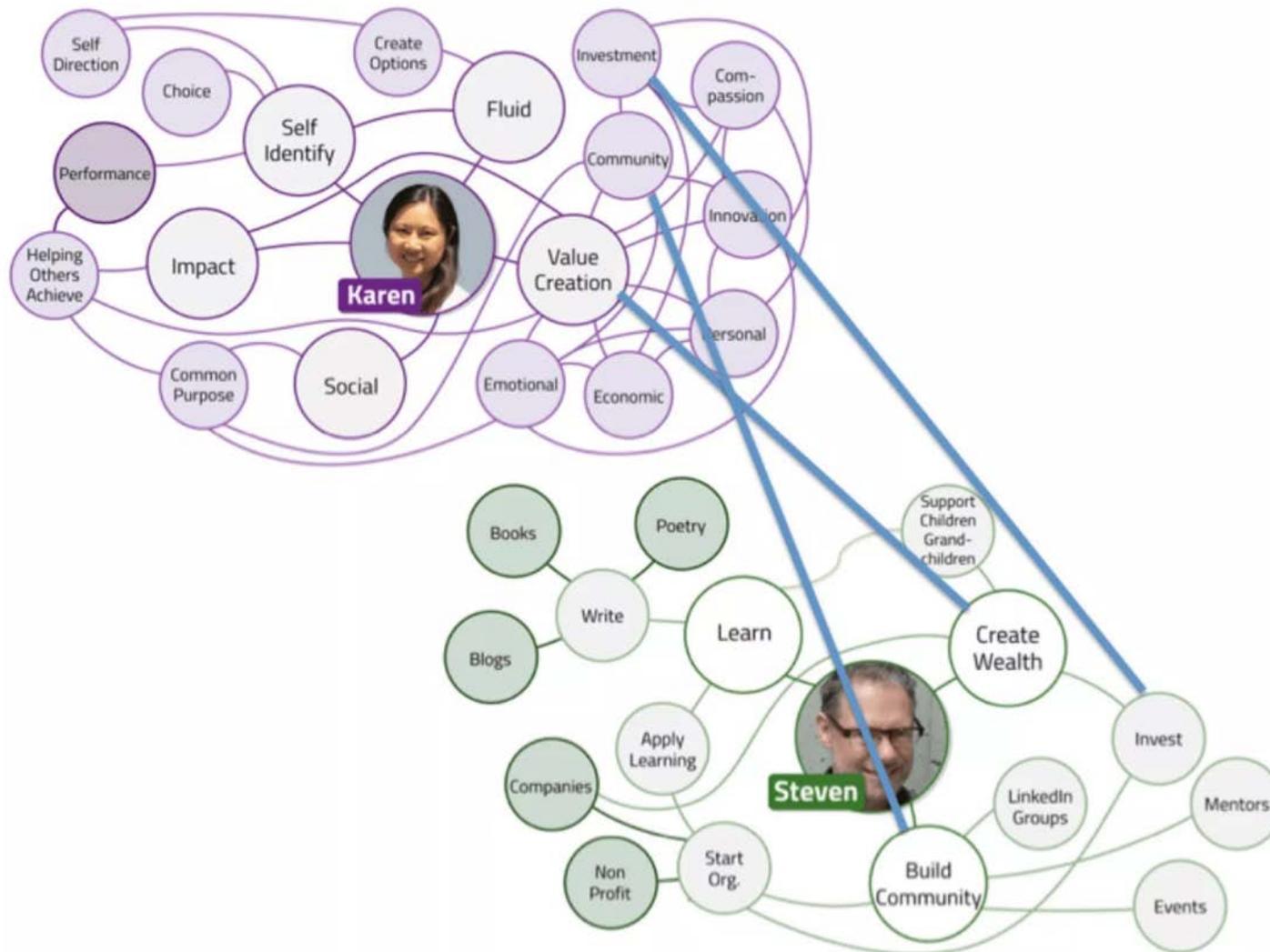
Pricing for Innovation

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<http://hq.teamfit.co/how-our-skills-support-and-shape-our-career/>



DEMONSTRATE VALUE TO YOUR CUSTOMERS

Without value there is nothing to price. To price on value, one has to create and communicate differentiated value to the customer.



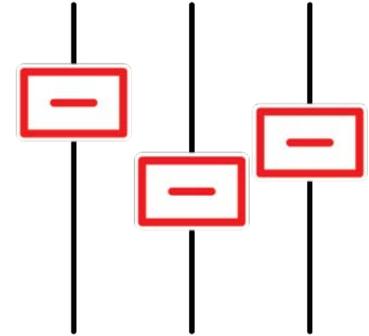
TARGET THE BEST CUSTOMERS

Targeting the most attractive customer segments that will respond to your pricing and value proposition is a key component of go-to-market strategy. Targeting is about prioritizing, as well as generating the most return on your marketing and sales investment.



CAPTURE A FAIR SHARE OF THAT VALUE

Customers will only accept value claims and pricing if they think you are being fair to them. What does it mean to be fair? In pricing, the perception of fairness is based on three things: transparency, consistency and value.

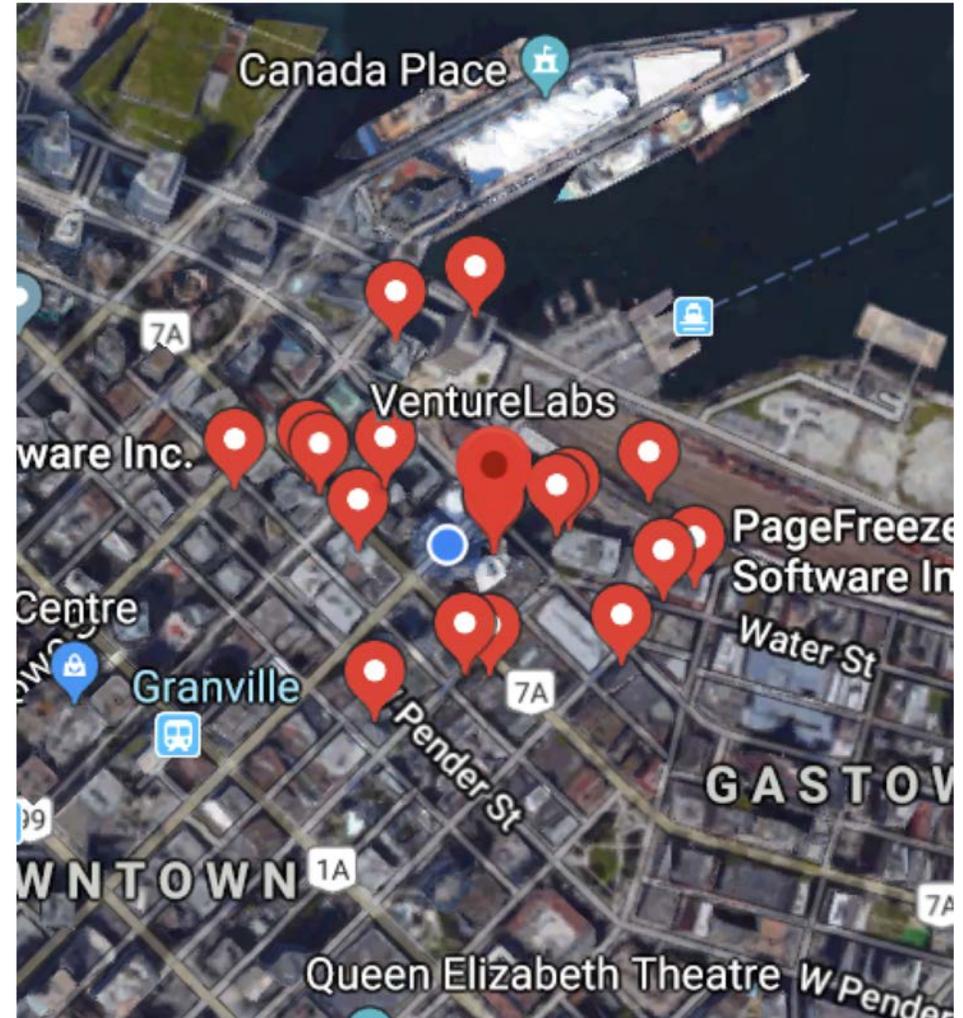


OPTIMIZE FOR REVENUE, PROFIT OR MARKET SHARE

Pricing is a powerful lever to maximize either revenue, profit or market share, but not all at the same time. Effective pricing requires alignment around pricing goals and managing critical trade-offs.



- Whose dealing in B2B, B2C, B2G markets?
- Anyone in M2M?
- What role?
- How many of you are responsible for pricing?
- Early stage ventures?





- 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 and emotional aspects – both matter
- Market segmentation is the foundation of your pricing strategy
- Connect the **value metric** to the **pricing metric**

Pricing power is important to investors



- **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
- Pricing is based on the value you provide to your customers
- Value has economic and emotional aspects – both matter *
- 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 is where it all comes together

How you create
value

Who you
sell to

How you
communicate
value

How you
capture value



Power by the Hour (PBH) -- Performance-based Logistics (PBL)

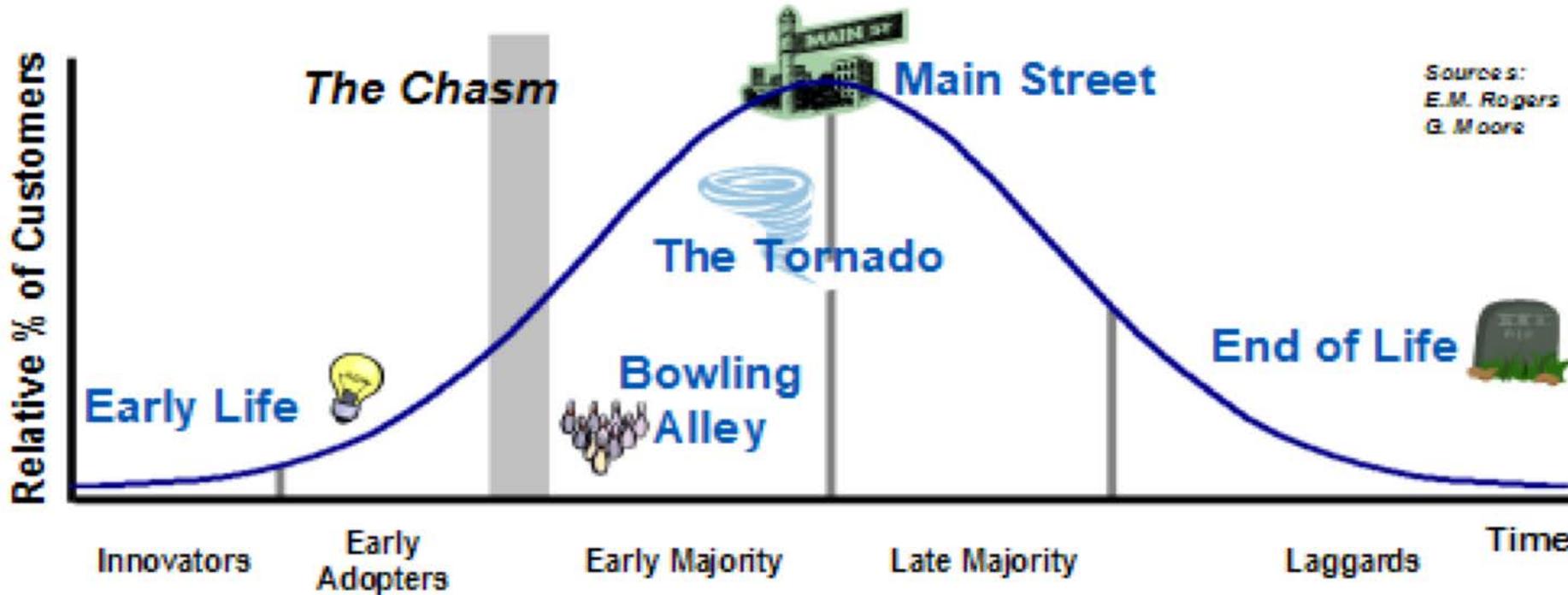
- Shared risk and incentives between suppliers and customers



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



Pricing changes over the Moore technology lifecycle



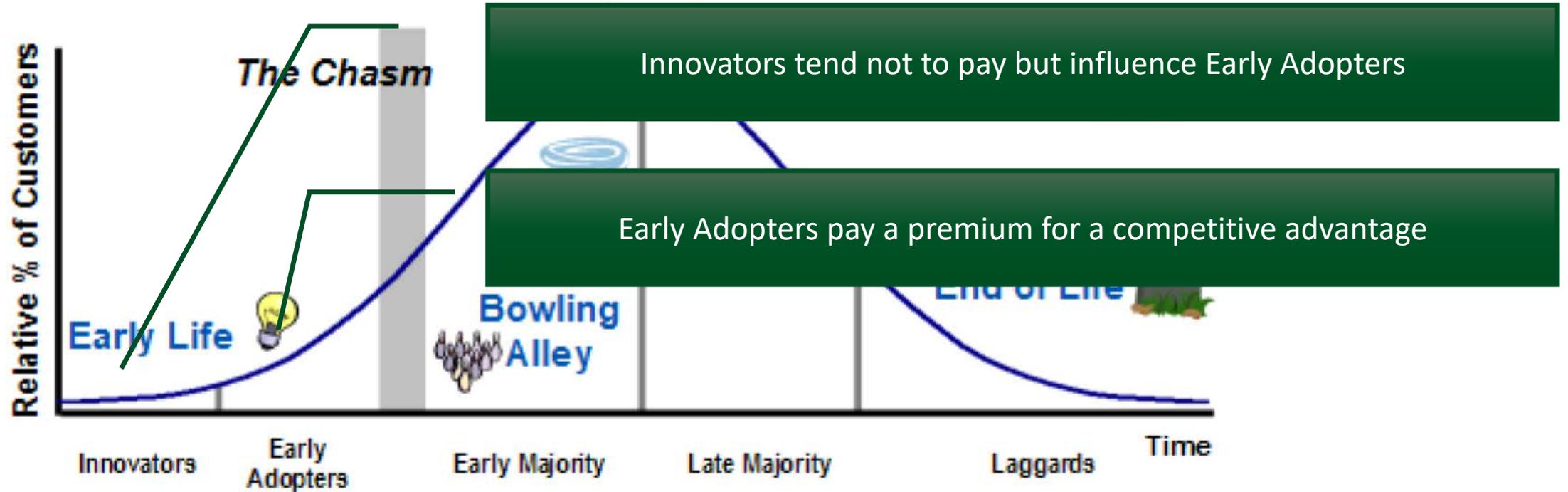
Source s:
E.M. Rogers
G. Moore

Technology Adoption Life Cycle

www.SolutionMarketingBlog.com



Innovators and Early Adopters Buy for Different Reasons

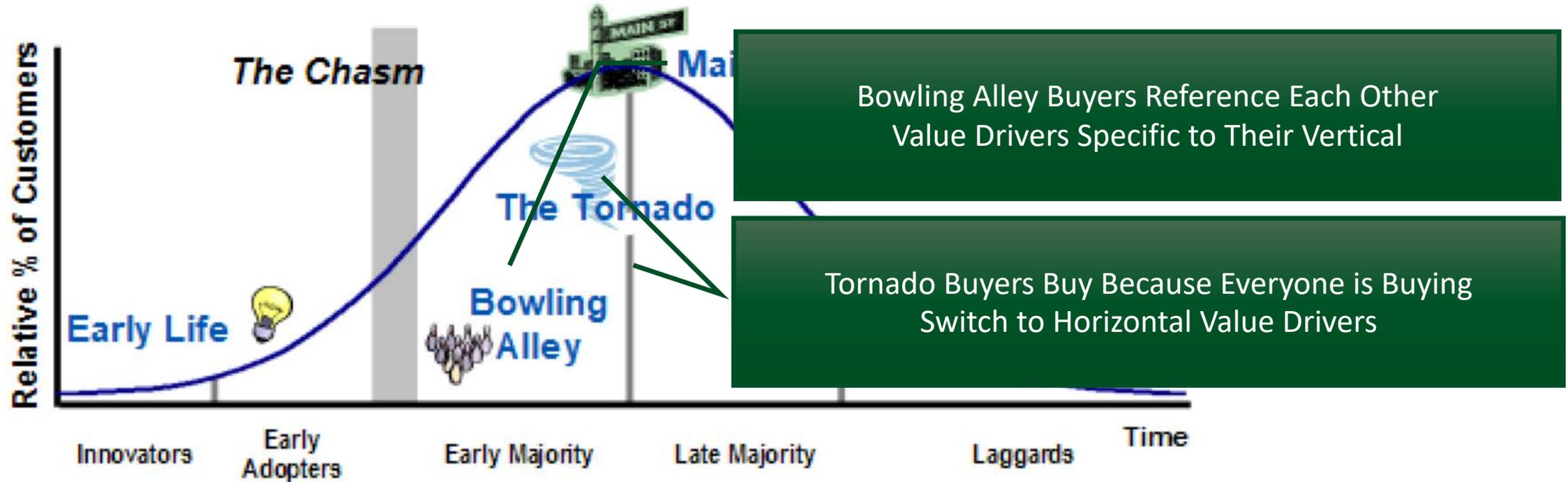


Technology Adoption Life Cycle

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Value Driver Structure Changes Between Bowling Alley and Tornado

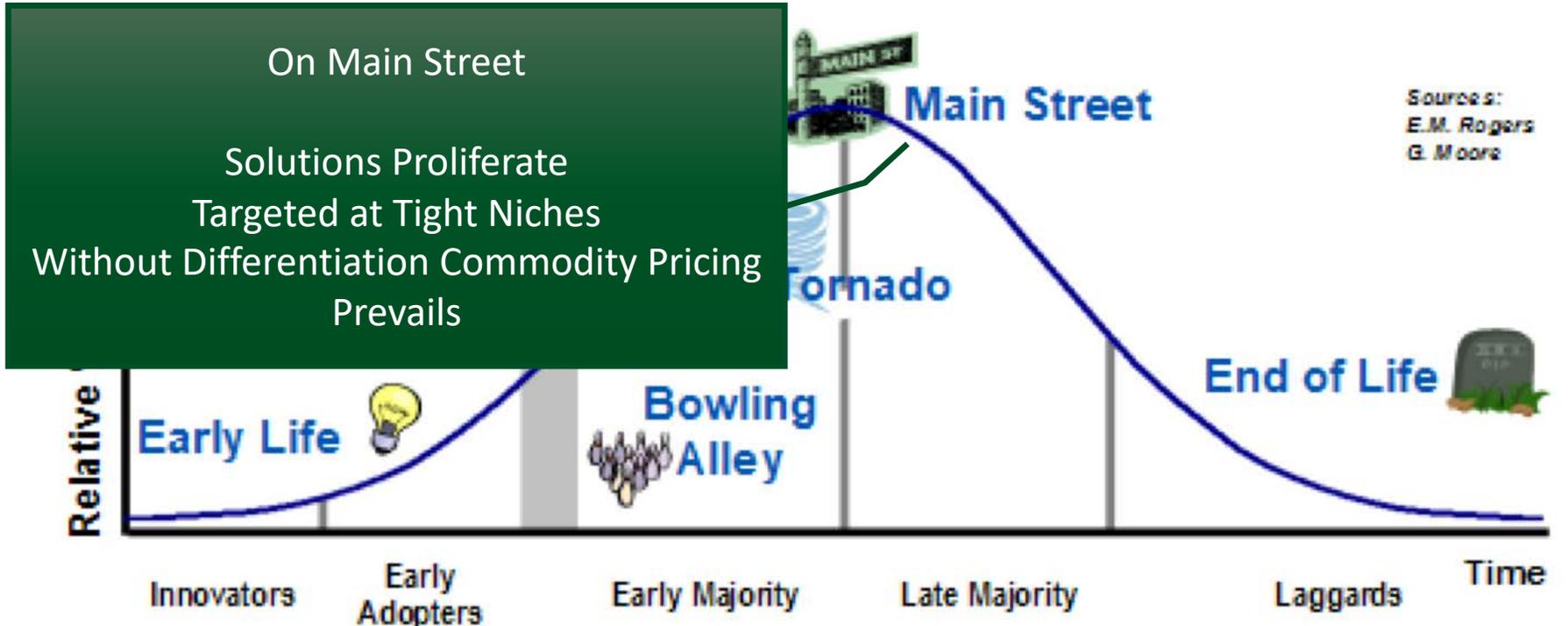


Technology Adoption Life Cycle

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Main Street B2B Buyers Are More Economic Value Driven

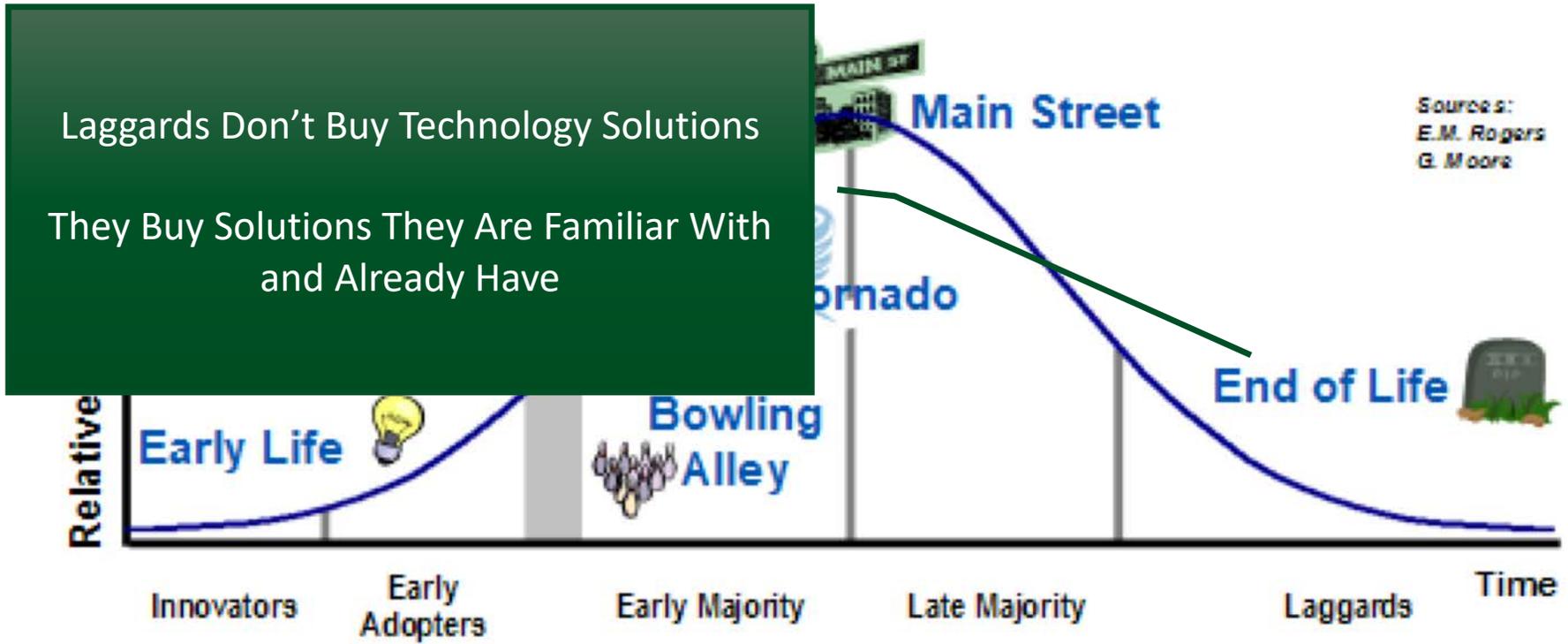


Technology Adoption Life Cycle

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Laggards Buy Technology Bundled Into Other Solutions They Already Have

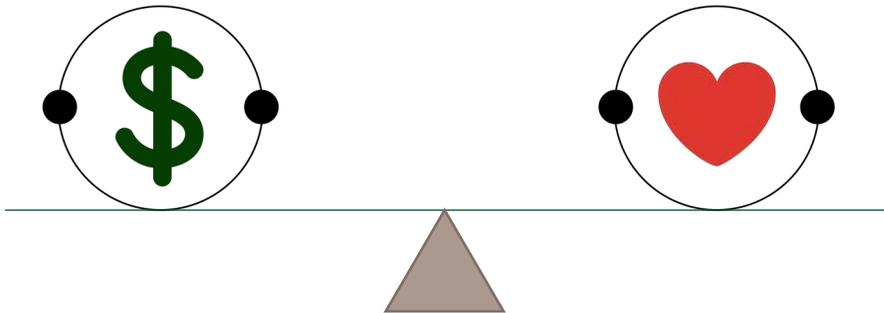


Laggards Don't Buy Technology Solutions
They Buy Solutions They Are Familiar With
and Already Have

Technology Adoption Life Cycle

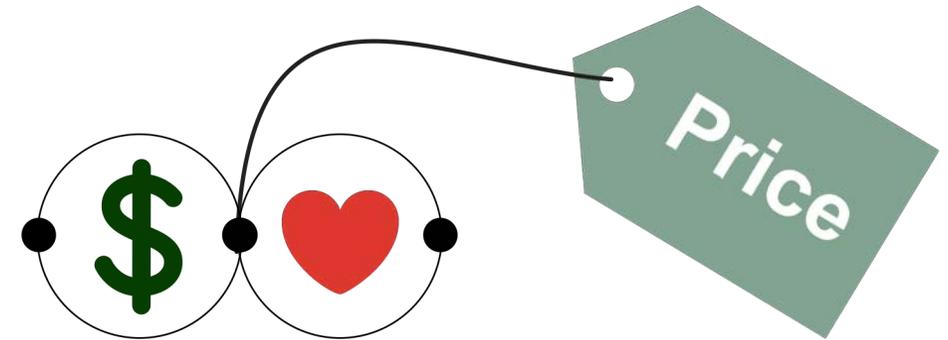


Pricing is a powerful lever to achieve corporate goals



→ However, without value there is nothing to price

Price should reflect value



→ Pricing and value are closely connected

→ When there is a value-price disconnect, people are unhappy



What is value?

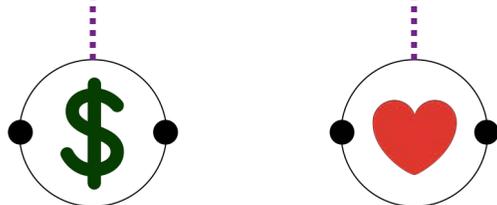
1. Is for a specific customer (or segment)

- Does not depend on costs
- Is not the value of the customer to the vendor

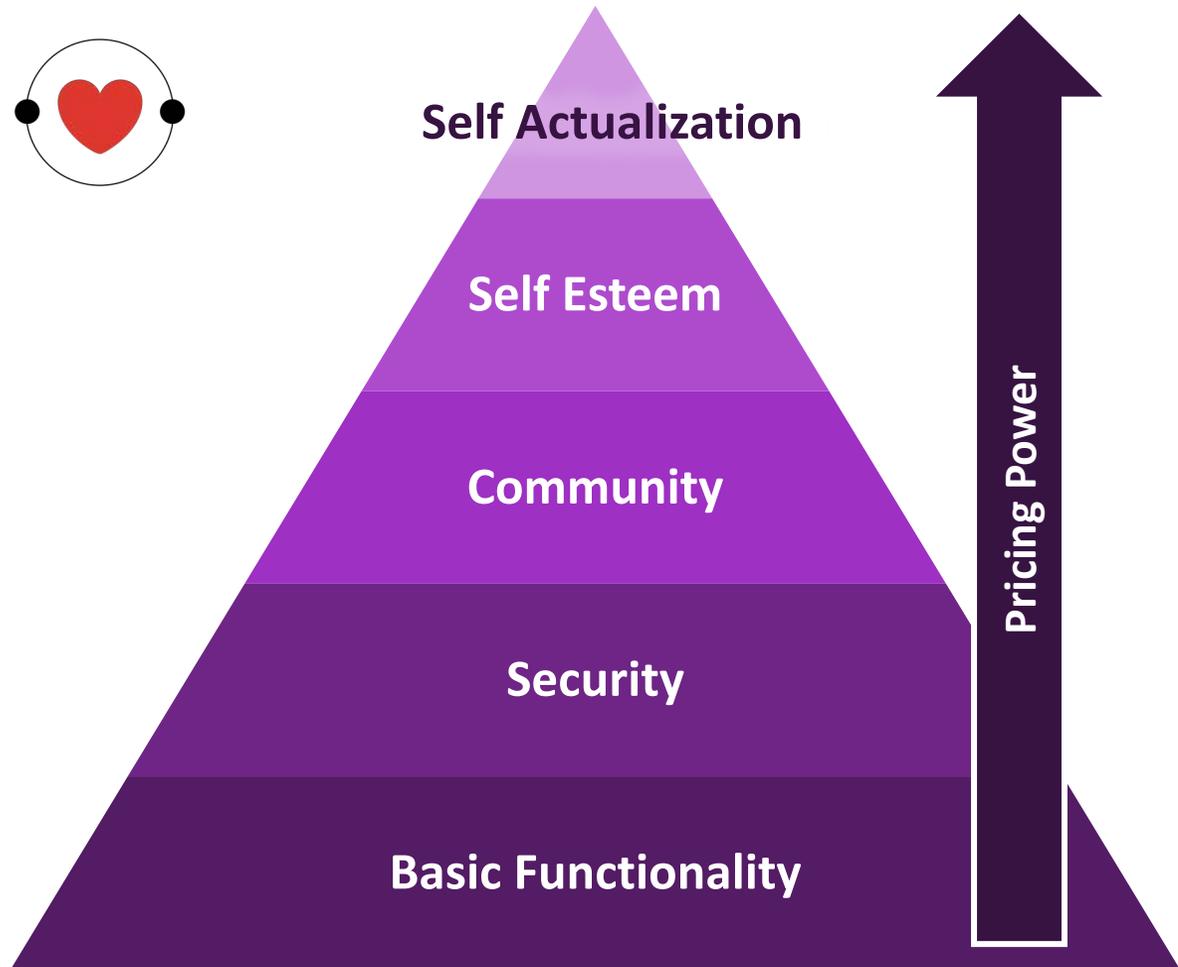
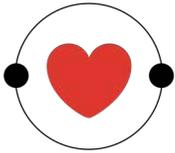
2. Is relative to the alternatives

- There is always an alternative
- The alternative is not necessarily your direct competitor

3. Has economic and emotional components



- Today, both B2C and B2B requires economic and emotional value drivers
- If either are nil or even weak, pricing power evaporates



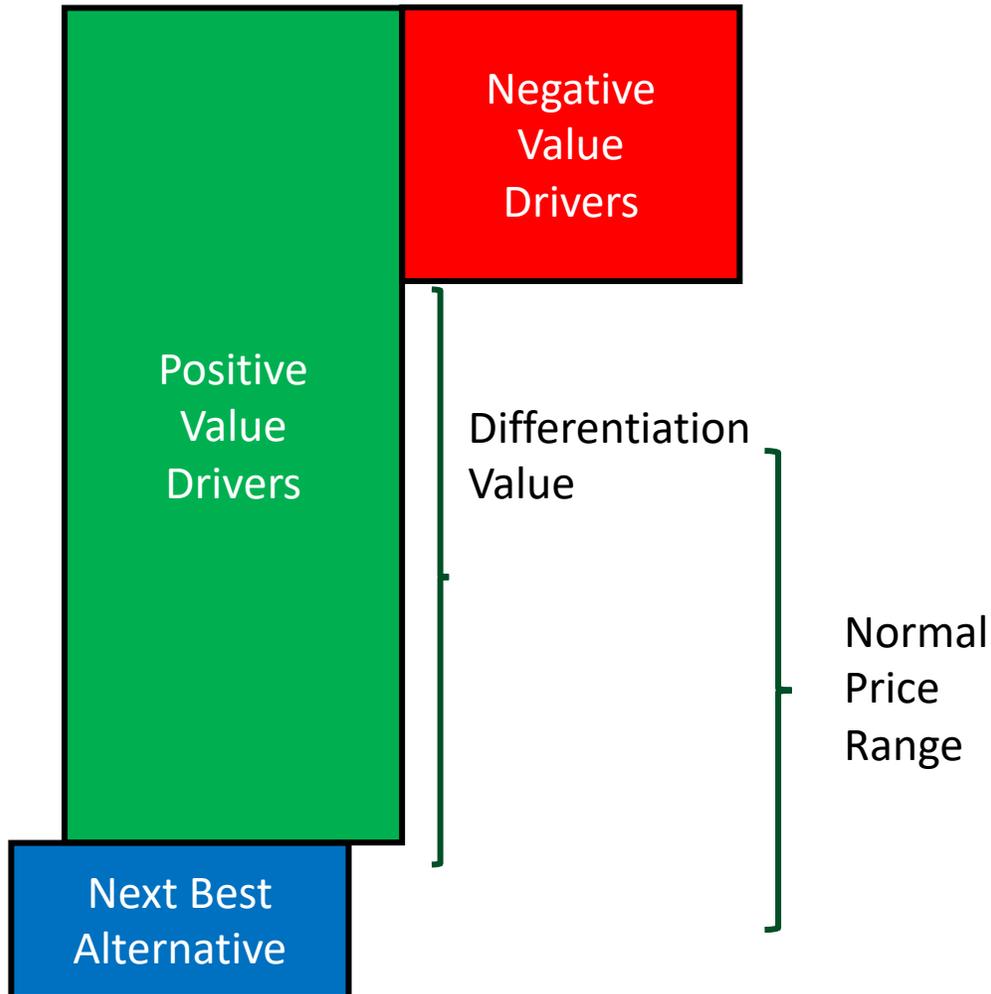
Maslow's Hierarchy

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

Economic Value – Economic Value Estimation (EVE)



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 (competitors' differentiation) and unique costs (switching costs) relative to the alternative

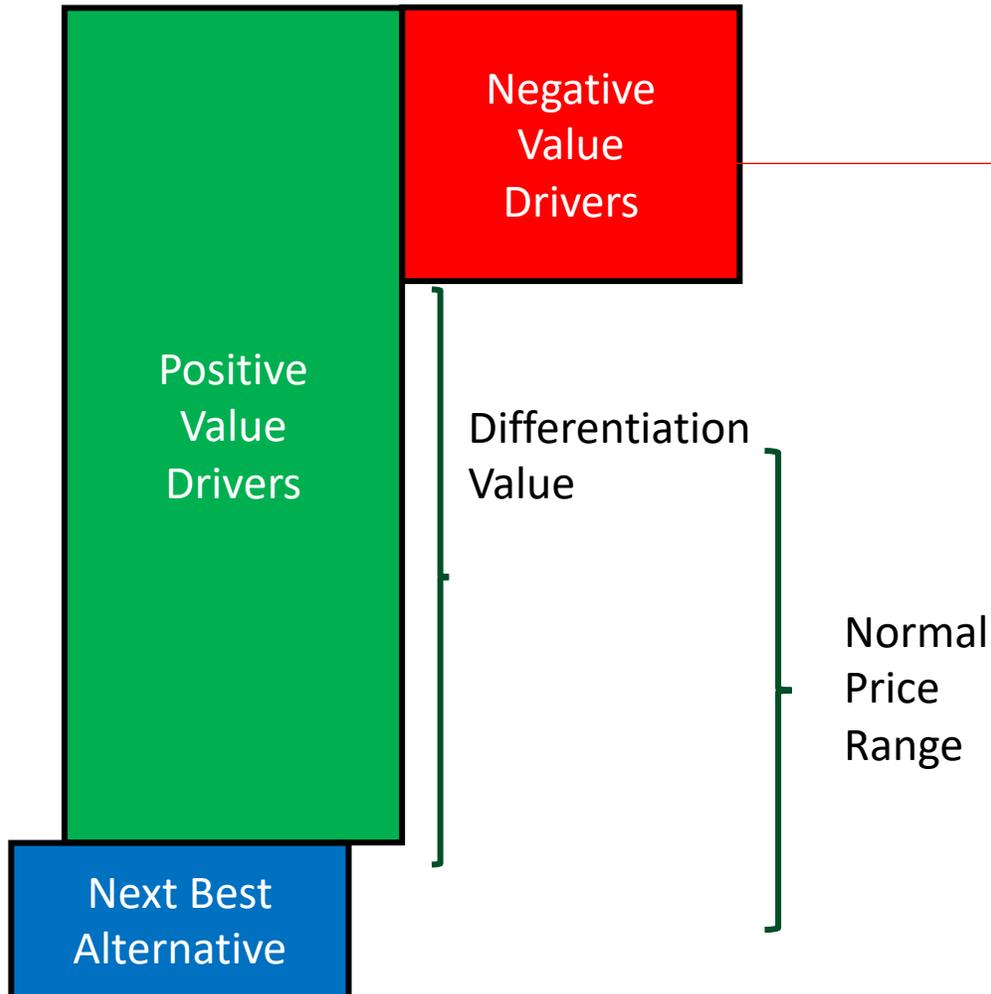
Positive Economic Value Drivers

Economic value drivers measure how your solution impacts your customer's financial statements compared to the alternatives

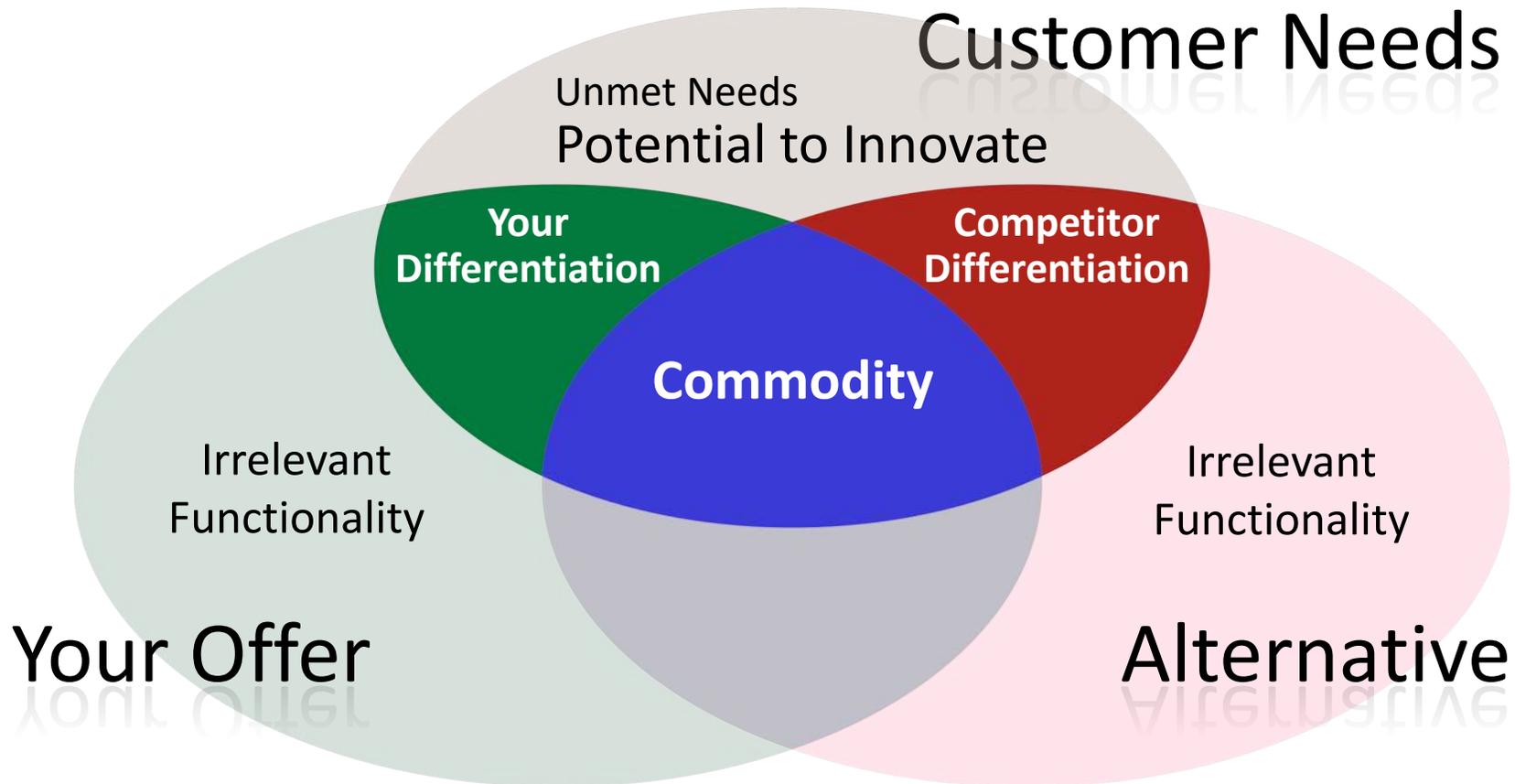
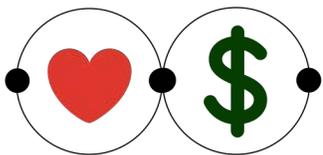
There are six types of Economic Value Driver

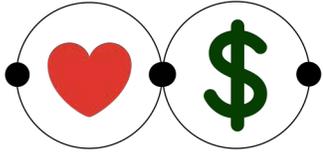
ECONOMIC VALUE DRIVER	EXAMPLES
Increase revenues	Increase market size Increase market share Improve pipeline metrics
Decrease operating expenses	Reduced employee turnover/cost of recruiting Streamlined/automated administration
Decrease operating capital	Reduced inventory Faster collections/accounts receivable
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

Negative Economic Value Drivers



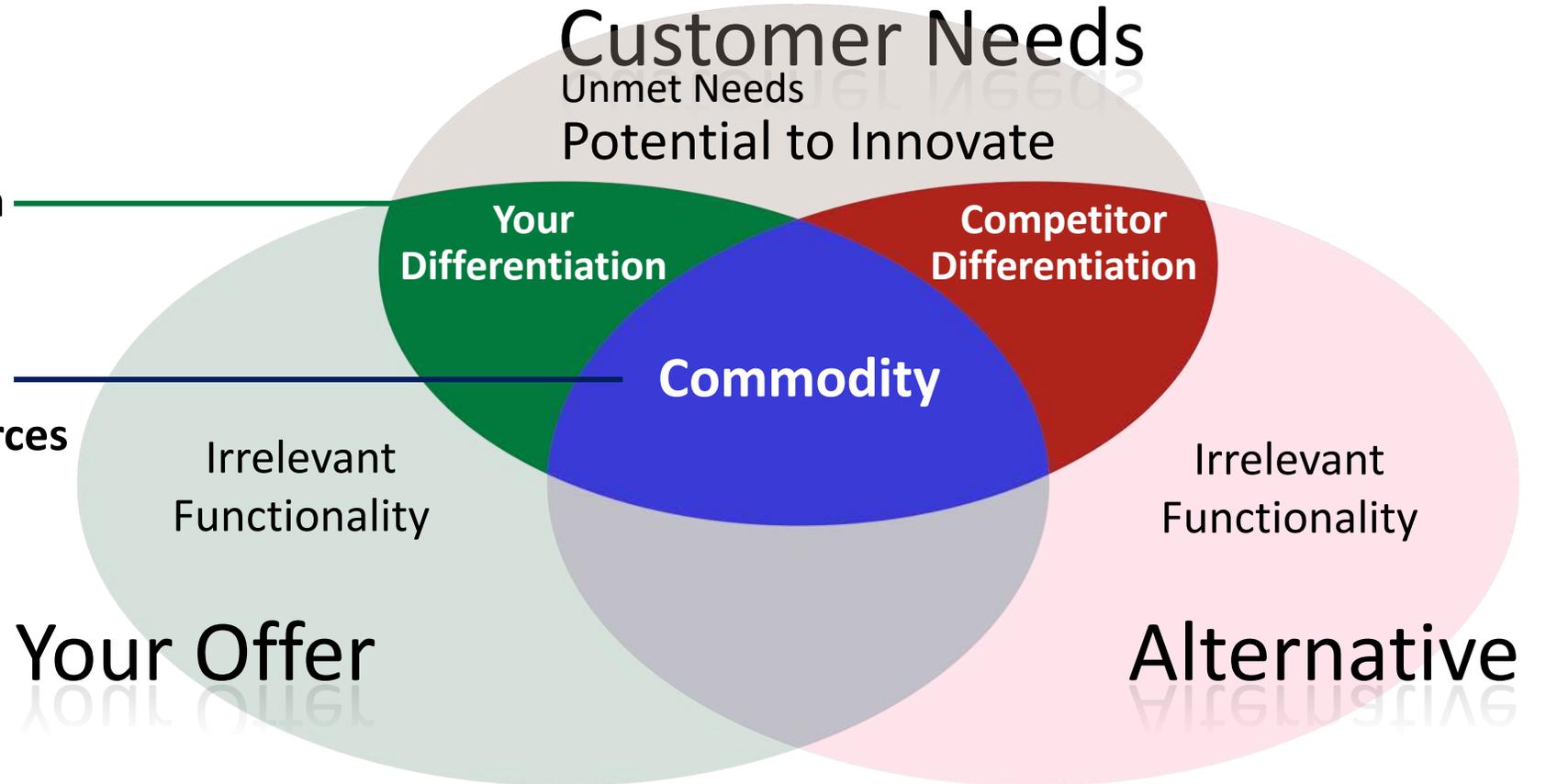
- Your **shortcomings** compared to the next best competitive alternative (that is, your competitor's differentiation)
- The **unique costs** associated with your offer, such as switching costs





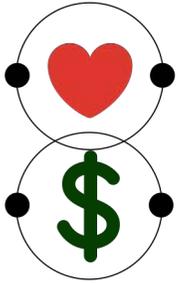
Your pricing power comes from your differentiation

The price of the commoditized component is set by market forces



Value and Differentiation

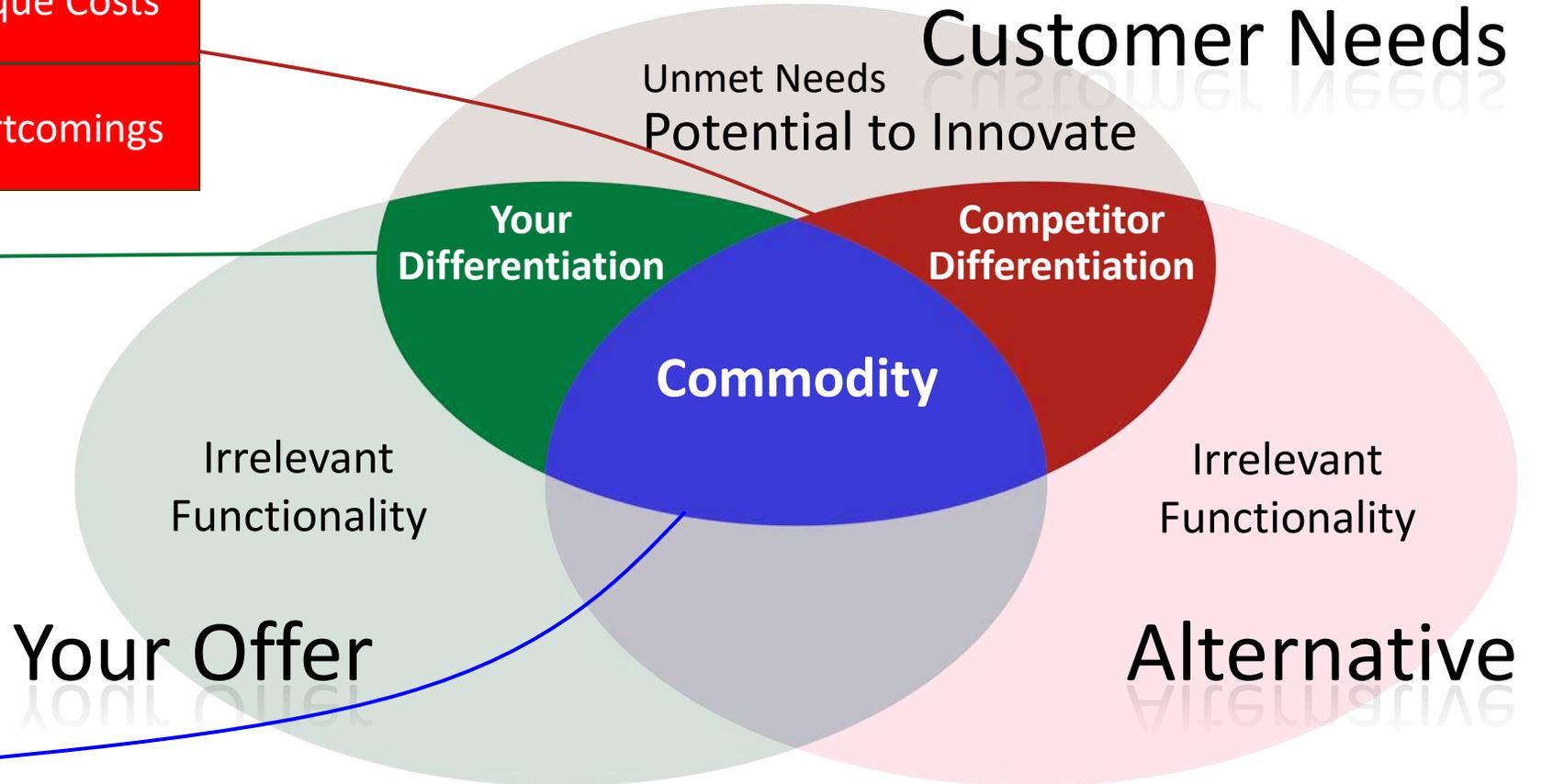
+ Value Drivers - Value Drivers



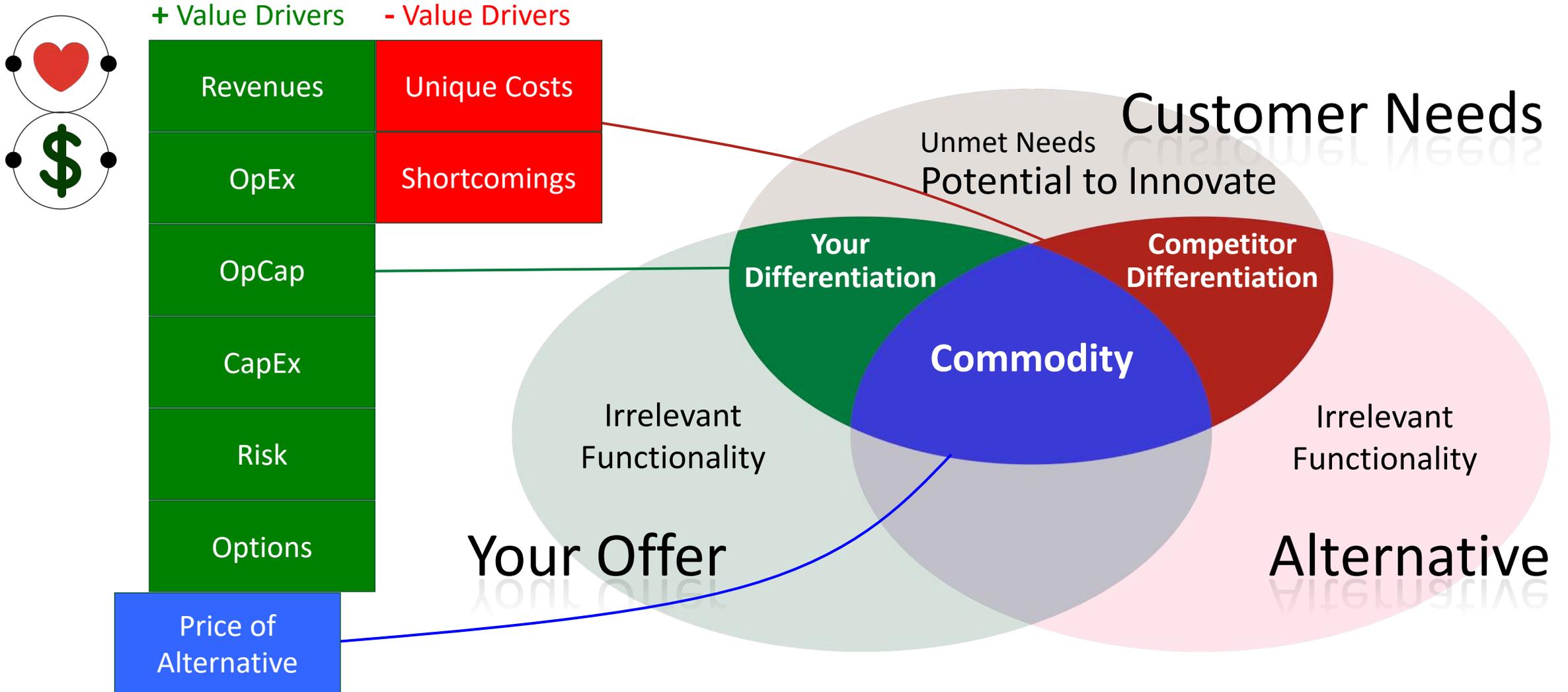
Revenues
OpEx
OpCap
CapEx
Risk
Options

Unique Costs
Shortcomings

Price of Alternative



Value and Differentiation





- Can we hear from the audience examples on 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



- 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?



- Lives in a castle
- Rich
- 69 year old
- Cares about family



Ozzie Osborne

- Lives in a castle
- Rich
- 70 years old
- Cares about family



Prince Charles



- Segmentation is the foundation of marketing

- The goal is to connect similar customers into groups to **simplify**
 - Marketing
 - Sales
 - Support
 - Pricing

	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				

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



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)



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

Market leadership requires one move from market –following pricing to value-based pricing



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)

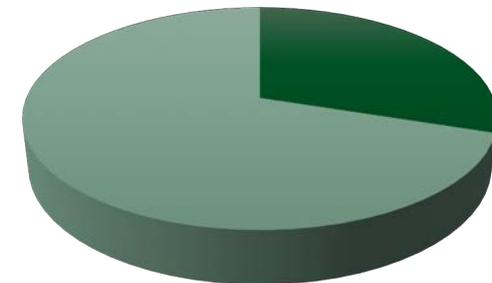
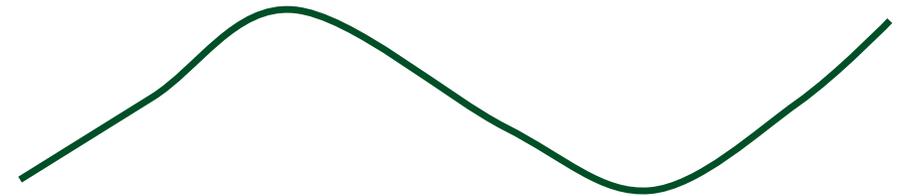
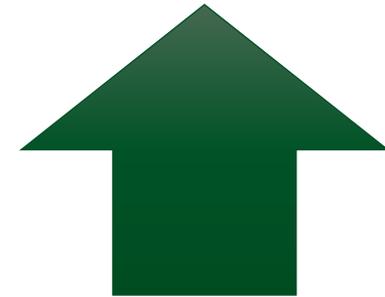
**What are the
pricing goals at
your organization?**

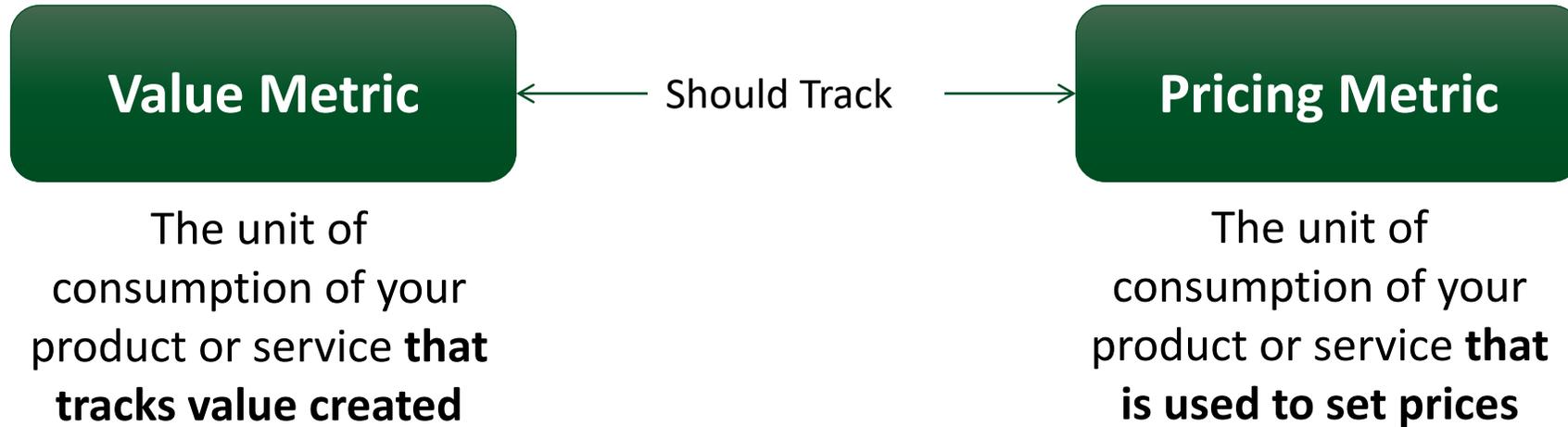
(What do you need
to optimize?)



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







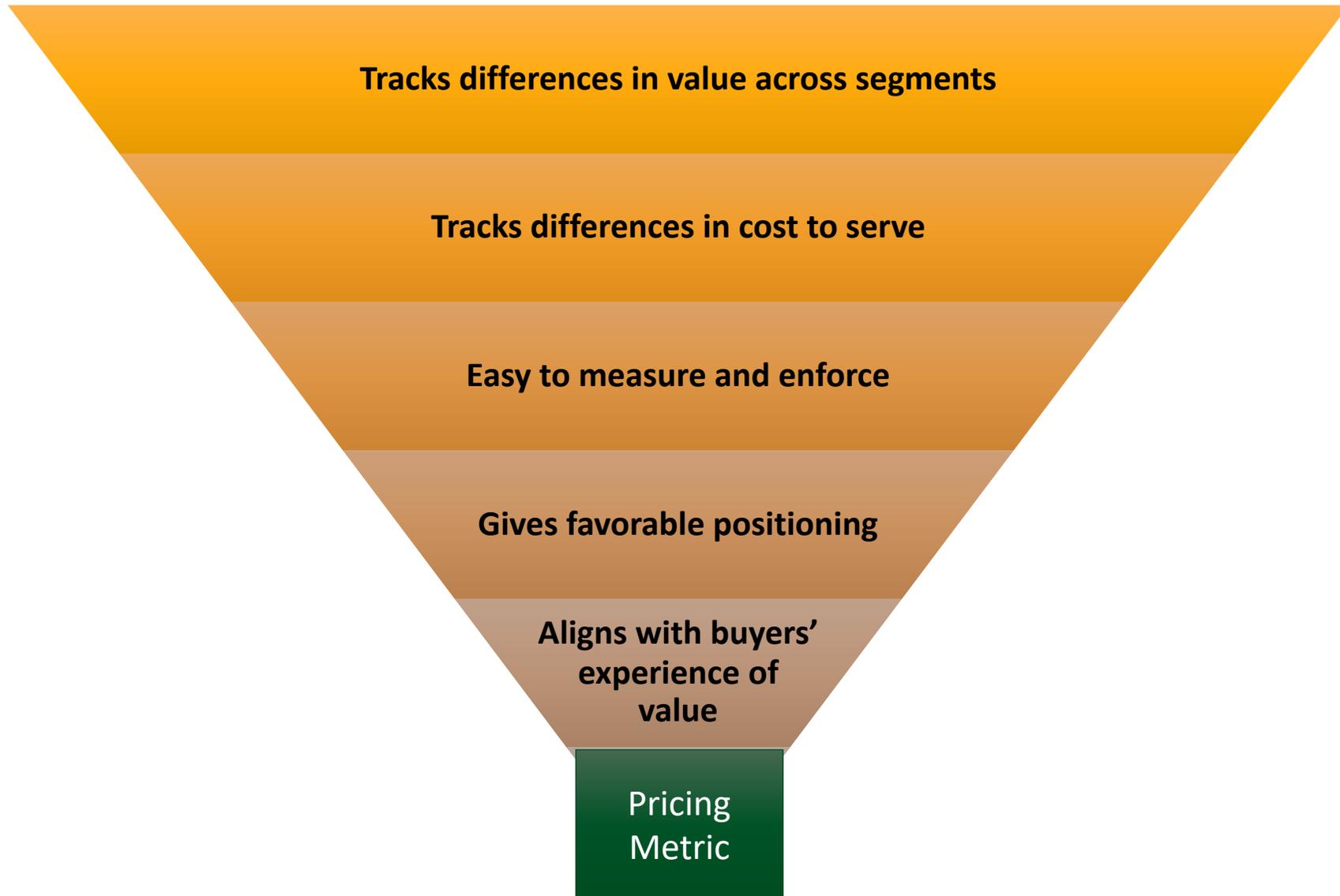
Value metric = The unit of consumption by which your customer gets value





Pricing Metric = The unit of consumption
by which you charge







- Would someone from the audience like to share their value—pricing metric?





“The single most important decision in evaluating a business is **pricing power**. If you've got the **power** to raise **prices** without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the **price** by 10 percent, then you've got a terrible business.”

Warren Buffet



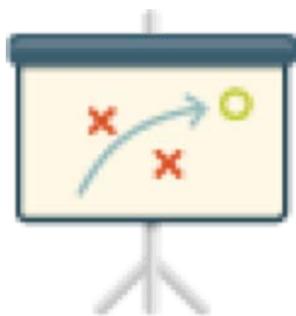


- Pricing is where all of your critical marketing decisions come together
- Investors will assess your pricing strategy and pricing performance



- 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

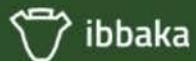


- Create and capture value for customers and your investors—all stakeholder
- Pricing is where your marketing strategy gets real
- You and your customer need to agree on price to win a sale

Price to create and capture value for all



1. Figure out if you have pricing power.
 - Can you raise prices?
 - What can you do to increase your ability to raise prices?
2. Answer ‘Which of our customers gets the most value from our offer?’
3. Checkout www.ibbaka.com/self-assessment



IBBAKA SELF-ASSESSMENT TOOL

Are you optimizing your monetization strategies?

Take one or more of the self-assessments below to find out.



Pricing

Pricing is where all of your sales and marketing efforts come together. Getting pricing right enables sales and marketing to work better together.

Begin



Segmentation

Good market segmentation is the foundation of your marketing and pricing strategy. Are you following best practices?

Take Again



Value

Market segmentation and pricing should be based on how you create value for customers. How do you understand and track emotional and economic value?

Take Again





Pricing consultancy and technology company
built by experienced entrepreneurs

We understand innovation because we live it

Our passion is improving product launch and in
market success through better strategic pricing
and execution

Understand the larger picture of segmentation,
targeting, value modeling, value propositions
and pricing architecture



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Ibbaka is a consulting and technology development company focused on helping companies **bring innovations to market** and to help them to scale.

We do this by bringing new approaches to **market segmentation, customer targeting and pricing design** to our clients and supporting them with **data science**.

The team has extensive experience in market segmentation and pricing at companies of all scales, from Fortune 50 to pre-revenue start-ups.

We present frequently at marketing, product management and professional pricing events. Follow our blog at www.ibbaka.com