PRICING INNOVATIONS

From Good Product to Good Business
Using Visualization to Build the Right Business

www.pricinginnovations.com/codefreeze
About me: Esra Kucukciftci

2003
Product Development Commercialization

2010
Chemical Engineer

2012
Product Management

2014
Product Marketing

2015
Pricing Innovations Consulting

2016
Business

2011
MBA

2010
Technology Marketing
OUR GOAL

1. Understand how we can utilize visualization to build the right product
2. Use this knowledge to build the right business
3. Talk about specific examples and reference the methods used

In the next 45 minutes or so...
Before we dive in...

cole nussbaumer knaflic

storytelling with data

a data visualization guide for business professionals

WILEY

@pricingpros
Great, you have a product. But do you have a **business**?
65% of new products **fail.** The cost of failed new products to the US economy in 2010 alone is **USD $260 billion.**

Source: Product Development and Management Association - PDMA
72% of new products fail to meet their revenue or profit goals.

Source: Simon Kutcher & Associates study across 1,600+ new products across 37 countries.
25% of the start-ups were still in the business in the end of a six year period.

Source: Harvard Business School study across 2,000 VC backed start-ups, between 2004-2010.
of businesses profit from digital.

Source: Accenture
“Product” innovation

Product → Cost → Price → Value → Customer
“Product-focused” innovation
fire
PHONE

@pricingpros

www.pricinginnovations.com/codefreeze
VALUE = Willingness to Pay – Opportunity Cost
Value Gap

1. Identify the gaps in perceived value & customers’ willingness to pay

2. Quantify the perceived value of benefits

3. Uncover reference sets that influence their willingness to pay
Whose problem are you solving?

Gloria  
Graduate Student

Paula  
Principal Investigator

Eva  
Evaluation Professional

Urs  
University Central Purchasing Director
Background
Demographics
Goals
Challenges
How we help
Common objections
Real quotes

Need differently
Buy differently
Benefit differently
Please don’t make me work

Opportunity size in USD millions

- User 1: $1
- User 2: $2
- User 3: $5
- User 4: $25
- User 5: $45
- User 6: $20
- User 7: $15
- User 8: $2
Three use cases make up 80%

Opportunity size distribution
Only **70%** of the use cases are addressable.

<table>
<thead>
<tr>
<th>Low-High</th>
<th>Category 1</th>
<th>Category 2</th>
<th>Category 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>User 1</td>
<td>28</td>
<td>44</td>
<td>37</td>
</tr>
<tr>
<td>User 2</td>
<td>16</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>User 3</td>
<td>11</td>
<td>22</td>
<td>33</td>
</tr>
<tr>
<td><strong>User 4</strong></td>
<td><strong>4</strong></td>
<td><strong>10</strong></td>
<td><strong>18</strong></td>
</tr>
<tr>
<td>User 5</td>
<td>46</td>
<td>31</td>
<td>58</td>
</tr>
<tr>
<td>User 6</td>
<td>39</td>
<td>65</td>
<td>37</td>
</tr>
<tr>
<td>User 7</td>
<td>31</td>
<td>55</td>
<td>65</td>
</tr>
<tr>
<td>User 8</td>
<td>18</td>
<td>11</td>
<td>4</td>
</tr>
</tbody>
</table>

22%  

70%
What's the value of the benefits?
What’s the value of the benefits?

Estimated economic benefits per user per year in USD.

In B2B, we focus on the functional benefits.
What if we cared about **emotional benefits**?

Estimated economic benefits per user per year in USD.

Comparing these is **hard**.
What if we cared about **emotional benefits**?

Estimated Economic Benefits per User per Year in USD.

Comparing these is **easy**.
And the last step before we can come up with a pricing window is understanding the buyers’ reference sets.
How do customers decide what’s “valuable”?
When it comes to **value perception**, people are **sensitive to differences** and not to absolute values.

“**Coherent arbitrariness**” - Dan Ariely et al, 2003
Reference value

Differentiation

Perceived value
“Perceived value” is the only one that matters and we can influence it.
Uncover the **spheres of impact**

“**Perceived value**” is the only one that matters and we can influence it.
Ready for your pricing window?

Well, not so fast.
Value Stack

Product structure

Cost structure

Value Gap

Value Innovation

Value Metric

Offer structure

Pricing structure
Value Stack

1. Uncover different types of stacks
2. Inform your product structure
3. Quantify the economic value per stack
Lifetime Value per User - **LTV**

Taxi cab
Lifetime Value per User - **LTV**

- Taxi cab
- Hourly car flat fee rides

**Good for the environment - good for you**

- Electric drive
- CO₂ reduced emissions
- Saves on fuel
Lifetime Value per User - **LTV**

- **Taxi cab**
- **Hourly car flat fee rides**
- **Ride-share**

@pricingpros

www.pricinginnovations.com/codefreeze
Lifetime Value per User - **LTV**

- Taxi cab
- Hourly car flat fee rides
- Ride-share
- Uber/Lyft
Lifetime Value per User - LTV

- Taxi cab
- Hourly car flat fee rides
- Ride-share
- Uber
- UberBUSINESS
- UberPOOL

@pricingpros

www.pricinginnovations.com/codefreeze
Word of caution:

**NEVER** visualize one dimensional data with multi-dimensional display.
Your **offer structure** must reflect your value stacks.

Users per Account ID

<table>
<thead>
<tr>
<th>Users per Account ID</th>
</tr>
</thead>
<tbody>
<tr>
<td>39</td>
</tr>
<tr>
<td>27</td>
</tr>
<tr>
<td>14</td>
</tr>
<tr>
<td>9</td>
</tr>
<tr>
<td>6</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>111</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

**Frequency distributions** can greatly inform your

1. Caps
2. Triggers
3. Fences
Frequency distributions can greatly inform your **offer structure**.

Percent of revenues per pricing plan

<table>
<thead>
<tr>
<th></th>
<th>Old</th>
<th>New</th>
<th>Optimized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plus</td>
<td>67%</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>27%</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>Team</td>
<td>8%</td>
<td>6%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Old

New

Optimized
Stack optimization is slightly **different for existing products** and technologies.
Now... for the pricing window
Competitive pricing

Repeat the factor comparison **for each of the target segments**.

Our new offering
- Competitor A
- Competitor B

@pricingpros
Strategic pricing

We derive the price by reverse engineering the overall revenue and segmented growth goals, and reconfiguring the product and offer structures accordingly.
Value-based pricing

We derive the price by valuating positively and negatively differentiated benefits in comparison to buyers’ reference sets or to the basis of competition.
Value **Metric**

1. Customers who benefit more should pay more.

2. A good value metric benefits both you *and* the customer.
What’s the one dimension which would allow your revenues to grow as your buyers’ businesses grow, if you acquired no new customers today?
A good value metric benefits **both you and the customer**.

Sometimes innovating your value metric can be **the innovation** in and of itself.
Let’s revisit our ed-tech story.
And let’s finalize our offer structure.

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Basic</th>
<th>Plus</th>
<th>Team</th>
<th>Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit 1</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
</tr>
<tr>
<td>Benefit 2</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
</tr>
<tr>
<td>Benefit 3</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
</tr>
<tr>
<td>Benefit 4</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
</tr>
<tr>
<td>Benefit 5</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
</tr>
<tr>
<td>Benefit 6</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
</tr>
<tr>
<td>Benefit 7</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
<td>▼</td>
</tr>
</tbody>
</table>

- **Innovation in social science research**
- **Upgrade for more use & better data management**
- **Upgrade for org-wide use**
- **Upgrade for unlimited studies & add-on services**
“Product-focused” innovation

Product -> Cost -> Price -> Value -> Customer
“Value-focused” innovation

Value Stack

Go-to-Market Test & Plan

Value Gap

Analytics & Metrics

Cost & Product Structure

Value Metric & Pricing
Final thoughts...
People don’t buy features; they buy **benefits**.
Visualizing can help your product and business teams to **identify**, **communicate**, and build the **right benefits** that will fuel your growth.
THANK YOU

@pricingpros

esra@pricinginnovations.com

+1 (612) 351-2503

www.pricinginnovations.com

DOWNLOAD

www.pricinginnovations.com/codefreeze