

Startup Pricing Workshop

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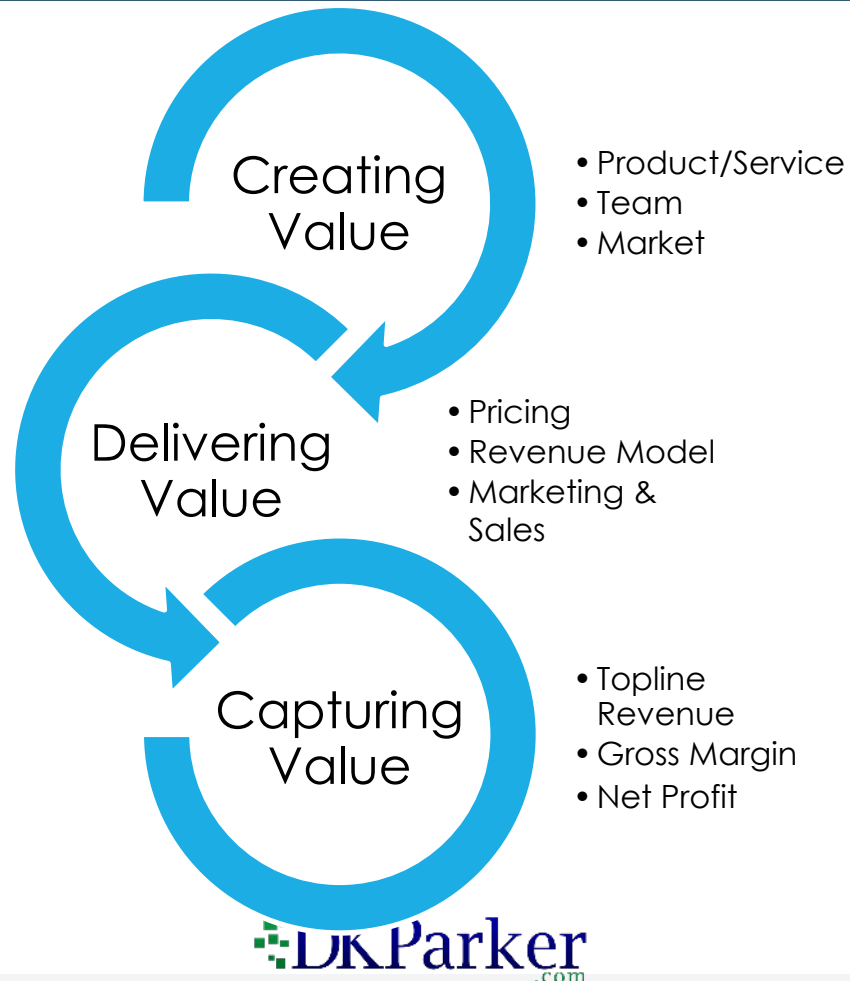
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Overview

- ▣ Pricing is Art and Science
- ▣ Mechanics
- ▣ Triangulation
- ▣ Your Hypothesis
- ▣ A/B Testing & Promotions

Business Model Breakdown



Revenue Models– Pick One or Two

1. Services/Fee for Service
2. Commerce
3. Subscription
4. Metered Service
5. Transaction Fee/Rental
6. Productize a Service
7. Combinations
8. Marketplace
9. Lead Generation
10. Gaming
11. Advertising/Search
12. New Media
13. Big Data
14. Licensing

Revenue Models

- ▣ Full post [here](#)
- ▣ What you need to know
 - ▣ Mark up
 - ▣ Commerce, services,
 - ▣ Subscriptions
 - ▣ MRR, ARR
 - ▣ Transaction Fees
 - ▣ Rental, marketplace

Pricing

Pricing as Art and Science

- Pricing needs to make sense to your customer first, you second
- Pricing is an informed decision based on data and proven revenue models
- A hypothesis backed by testing – at launch and while you grow
- Value proposition testing is important
- Remember, people don't act rationally

Perceived Value

- What's the gap between price and perceived value?
 - Does it exist, is it large enough
 - Does it save time
 - Does it make money
 - Does it give you a head start
- Price can serve as a proxy for value
 - \$50 bottle of wine vs \$10
- Pricing isn't ultimately about you or the company, it's about the customer

Ultimately pricing needs to cover

- ▣ Cost of Customer Acquisition
- ▣ Cost of Delivering
- ▣ Margin (Profits and Returns)
- ▣ Lifetime Value (LTV) is calculated at 12 or actual
- ▣ Pricing is not an afterthought
- ▣ 10, 100, 1000 customers

Pricing in the Workflow

- Where does your product and price sit in the customer workflow?
 - Spontaneous decision
 - Demand driving decision
- What does your customer require before they buy your product?
 - Are they looking for an engineer or do they have to have a specific tech stack
- What does the customer require after they buy your product?

Cost of Switching

- Green field customers
 - No current solutions

- Cost of Switching
 - Time since previous decision
 - Use case for existing solution
 - Performance vs. expectation
 - Training cost
 - Political cost

Price Anchoring

- ▣ Adjacent product pricing
 - ▣ Enterprise use of Salesforce or Workday
 - ▣ Consumer application pricing for similar categories
- ▣ Suggested retail price
 - ▣ Marked down
- ▣ Bundling
- ▣ Limited time offers
- ▣ Marketing to scarcity

Pricing Options

Jobs to Be Done Framework

- Clayton Christensen – HBS

“When we buy a product, we essentially ‘hire’ something to get a job done. If it does the job well, when we are confronted with the same job, we hire that same product again. And if the product does a crummy job, we ‘fire’ it and look around for something else we might hire to solve the problem.”

- What job is your customer hiring your product to do?

- Does it replace 20% of a staff person's time

- Does it save them money, make them money

- Do they currently have a hack they use to do this task

Cost Based


- ▣ Pay Rate
- ▣ Bill Rate
- ▣ Gross Margin

Value Based

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Trim	3.0 Premium Launch Edition
Stock #	P3783
VIN	WZ1DB4C03LWQ23029
Exterior Color	White
Interior Color	Red
Gas Mileage	City:24 Hwy:31
Doors	2
Drivetrain	R

Value Based

- ▣ Perceived value
- ▣ Range
- ▣ Product maturity

Tiered Pricing

- Tier on volume, usage, and/or features
 - Optimize around ICPs
- Too many choices are bad
 - Confused customers don't buy
- Decoy pricing
 - Economist example – online only \$59, print only \$125, combined \$125. Frames snap judgement decisions

Market Pricing and Competition

Competitive Analysis

- Use the [Wayback](#) Machine – Internet Archive



Explore more than 362 billion [web pages](#) saved over time

BROWSE HISTORY

- Know the Market
- Price changes over time
- Service/Product Offerings
- Terms – duration, contract length

A/B Testing

- ▣ Have a hypothesis – what will you test?
- ▣ Hide current pricing on site
- ▣ Traffic to landing pages
- ▣ Unbounce or other
- ▣ Squeeze Page – only CTA is buy

Promotions (aren't pricing)

- ▣ Freemium
- ▣ Time based
- ▣ Early Adopter based
- ▣ Percentage Discount
- ▣ Grandfather early users

Common Errors

- ❑ Setting your pricing too low
- ❑ Freemium is a marketing method, not a price
- ❑ Too Opaque of a price will frustrate customers
- ❑ “Knowing the answer” vs testing
- ❑ Positioning as “me too” – just like my competitors but less
- ❑ Same price for all customers
- ❑ Free for Life!

Where to start?

- ▣ Pick a model
- ▣ Do the competitive analysis
- ▣ Build a pricing hypothesis
- ▣ A/B Test
- ▣ Three tiers – max!
- ▣ Price high – promo code for discounts

Pricing Worksheet

Pricing-Worksheet.pdf

Buyer's Anchors

SUBSTITUTES	COMPLEMENTS

Buyer's Cognitive System

INTUITIVE	RATIONAL

Value based prototype

PERCEIVED VALUE

PRICE

COST

Assortment

HORIZONTAL

	SEG 1
	SEG 2
	SEG 3

VERTICAL

	BEST
	BETTER
	BETTER
	GOOD

sequoiacap.com

Pricing-Worksheet.pdf

Details

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Size
17.27 KB

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Questions?

Resources

- ▣ [Pricing Page Teardown](#) – podcast and email
- ▣ [Neil Patel](#) – Pricing Strategies and examples
- ▣ [Tomasz Tunguz](#) – Redpoint Ventures
- ▣ [Sequoia](#) – pricing your product
- ▣ [Startups.com](#) -



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