

Startup Pricing Workshop

Dave Parker

@DaveParkerSEA

www.dkparker.com/blog

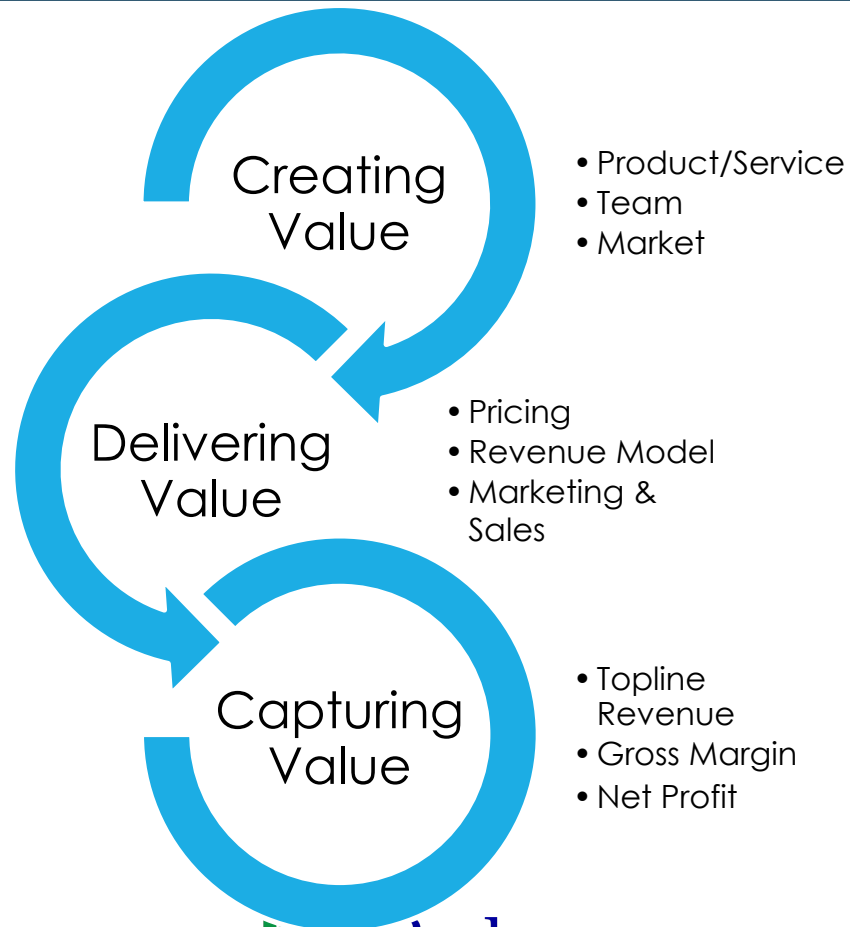
Dave@dkparker.com



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

Your pricing will be wrong... test it
and improve it.

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

Anchoring Examples



Chicago Pneumatic
Chicago Pneumatic CP9791 Heavy Duty 1/2-Inch Reversible Drill, Keyless Chuck
 ★★★★★ 2 customer reviews

List Price: \$306.00
 Price: **\$182.99** ✓Prime
 You Save: \$122.01 (40%)

Get \$50.00 off instantly: Pay \$132.99 upon approval for the Amazon Rewards Visa Card. [Learn more](#)

Only 4 left in stock (more on the way).
Want it tomorrow, March 22? Order within **5 hrs 46 mins** and choose **One-Day Shipping** at checkout. [Details](#)
 Ships from and sold by Amazon.com in [easy-to-open packaging](#). Gift-wrap available.

	BASIC	PROFESSIONAL	BUSINESS	ENTERPRISE	PREMIER
	\$24 monthly	\$59 monthly	\$99 monthly Most Popular	\$249 monthly	\$699 monthly
	Sign Up	Sign Up	Sign Up	Sign Up	Sign Up
Set up fee	waived	waived	waived	waived	waived
Transaction Fee	2.0%	1.0%	1.0%	0.5%	0%
Max SKUs	100	2,500	10,000	25,000	50,000
Storage	100 MB	500 MB	1000 MB	2.5 GB	5 GB
Bandwidth	unlimited	unlimited	unlimited	unlimited	unlimited
Custom Domains	✓	✓	✓	✓	✓
SSL Checkout	✓	✓	✓	✓	✓
SSL Admin		✓	✓	✓	✓
Discount Codes		✓	✓	✓	✓
Carrier Shipping			✓	✓	✓
Real-Time Stats			✓	✓	✓
Adwords credit	\$ 25.00	\$ 50.00	\$ 50.00	\$ 75.00	\$ 75.00
All prices are USD	Sign Up	Sign Up	Sign Up	Sign Up	Sign Up

■ <https://blog.hubspot.com/ecommerce/setting-ecommerce-prices-psychology-sales>

Pricing Options

Cost Based


- ▣ Pay Rate
- ▣ Bill Rate
- ▣ Cost of Goods (Wholesale)
- ▣ Retail – Suggested Retail
- ▣ Gross Margin

Value Based

BILL PENNEY'S
NIGHT & DAY
SERVICE

LATE NIGHT DROP-OFF
& EARLY BIRD PICKUP



Mon-Thurs | 7am-11pm



SCHEDULE TODAY!

Used 2020 Toyota GR Supra 3.0 Premium Launch Edition
2dr Car near Huntsville, AL

(256) 203-6188



No Haggle Price **\$167,000**

Sign Up For Price Drop Alerts

\$ I'M INTERESTED!

\$ CONDITIONAL DISCOUNTS

Get Pre-Approved | Value Your Trade

Schedule Test Drive | Request Information

Vehicle Details

Mileage	182
Trim	3.0 Premium Launch Edition
Stock #	P3783
VIN	WZ1DB4C03LWQ23029
Exterior Color	White
Interior Color	Red
Gas Mileage	City:24 Hwy:31
Doors	2
Registration	9

2018 Toyota Prius

Value Based

- ▣ Perceived value
- ▣ Range
- ▣ Product maturity
- ▣ Intuitive
- ▣ Calculated



FEATURED RESOURCE

Sales Pricing Strategy Calculator

Determine the pricing strategy that will produce the most profit and revenue for your business with this free Excel-based calculator and template.

[Download Now](#)

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

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

Good, Better, Best... or

		Mailchimp Recommends		\$ USD
PLAN	Premium Advanced features for pros who need more customization.	Standard Better insights for growing businesses that want more customers.	Essentials Must-have features for email senders who want added support.	Free All the basics for businesses that are just getting started.
PRICING	Starting at \$299⁰⁰ a month Select Calculate your price	Starting at \$14⁹⁹ a month Select Calculate your price	Starting at \$9⁹⁹ a month Select Calculate your price	\$0 Get Started
TOP FEATURES	Everything in Standard, plus: Advanced segmentation Multivariate testing Unlimited seats and role-based access Phone support	Everything in Essentials, plus: Automation series Retargeting ads Custom templates Advanced audience insights	Everything in Free, plus: All email templates A/B testing Custom branding 24/7 award-winning support	7 marketing channels 1-click automations Basic templates Marketing CRM

Terms

- ▣ Monthly
- ▣ Annually
- ▣ Multi-year contracts
- ▣ Cost to cancel

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

Low Fidelity (volume)

- ▣ B2B, low traffic
- ▣ Test using multiple price sheets on sales calls
- ▣ Good call = higher price sheet
- ▣ With graphic/layout and pricing

High Fidelity

- ▣ Demote pricing page from top navigation
- ▣ Drive traffic to landing pages tool to automate A/B testing
- ▣ Target volume to be tested

A/B Testing

- Have a hypothesis – what will you test?
 - Bundle
 - Price
 - Value prop
- Unbounce, Instapage, Wix or Wordpress plugin
- Squeeze Page – only CTA is buy

Changing Pricing Overtime

- ▣ *Prices are subject to change
- ▣ Proposals that time out
- ▣ “Won’t I disappoint my customer?”
- ▣ “We are always testing our pricing, that’s what startups do.”
- ▣ As features change, product or price may change

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

1 Buyer's Anchors

SUBSTITUTES	COMPLEMENTS

2 Buyer's Cognitive System

INTUITIVE	RATIONAL

3 Value based prototype

PERCEIVED VALUE

PRICE

COST

4 Assortment

HORIZONTAL

	SEG 1
	SEG 2
	SEG 3

VERTICAL

	BEST
	BETTER
	BETTER
	GOOD

1 of 1

1 \$0

Sign in

Sign up



sequoiacap.com

Pricing-Worksheet.pdf

Details

From

Dropbox Master (sequoiacap.com)

Size

17.27 KB

[View all details](#)

Questions?

Resources

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



dave@dkparker.com

www.dkparker.com

@DaveParkerSEA