

PRICING YOUR PRODUCTS FOR MAXIMUM RETURN

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HOW MUCH DO YOU PAY FOR A COFFEE?



WHAT WOULD YOU PAY FOR...











\$914 COFFEE



WORTH IT •





ACROSS ALL OF THESE SCENARIOS


WHAT'S THE MOST & LEAST YOU'D PAY?



SUCCESSFUL PRODUCT LINES


TYPICAL PRICE RANGES, MAX:MIN

3:1 to 10:1

			
ESPRESSO			
	TALL	GRANDE	VENTI
CAFFE' AMERICANO	\$4.25	\$5.00	\$5.50
CAFFE' LATTE	\$4.25	\$5.00	\$5.50
CAPPUCCINO	\$4.25	\$5.00	\$5.50
CAFFE' MOCHA	\$4.50	\$5.25	\$5.75
VANILLA LATTE	\$4.50	\$5.25	\$5.75
CARAMEL MACCHIATO	\$4.50	\$5.25	\$5.75
WHITE CHOCOLATE MOCHA	\$4.50	\$5.25	\$5.75
ESPRESSO	\$1.75	\$2.25	
ENJOY ICED FOR \$0.50			
COFFEE & TEAVANA® TEA			
	TALL	GRANDE	VENTI
FRESHLY BREWED COFFEE	\$2.25	\$2.75	\$3.00
BREWED TEAVANA® TEA	\$2.25	\$2.75	\$3.00
FRAPPUCCINO® BLENDED BEVERAGES			
	TALL	GRANDE	VENTI
VANILLA COFFEE	\$4.50	\$5.25	\$5.75
CARAMEL MOCHA	\$4.50	\$5.25	\$5.75
JAVA CHIP	\$4.50	\$5.25	\$5.75
WHITE CHOCOLATE MOCHA	\$4.50	\$5.25	\$5.75
OTHER FAVORITES			
	TALL	GRANDE	VENTI
HOT CHOCOLATE	\$4.25	\$5.00	\$5.50
WHITE HOT CHOCOLATE	\$4.25	\$5.00	\$5.50
STEAMER	\$4.25	\$5.00	\$5.50

SUCCESSFUL PRODUCT LINES

TYPICAL PRICE RANGES, MAX:MIN

			
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3:1 to 10:1

What's your
product's
price ratio?

FOR PRODUCT CATEGORIES

TYPICAL PRICE RANGES, MAX:MIN

10:1 to 100+:1

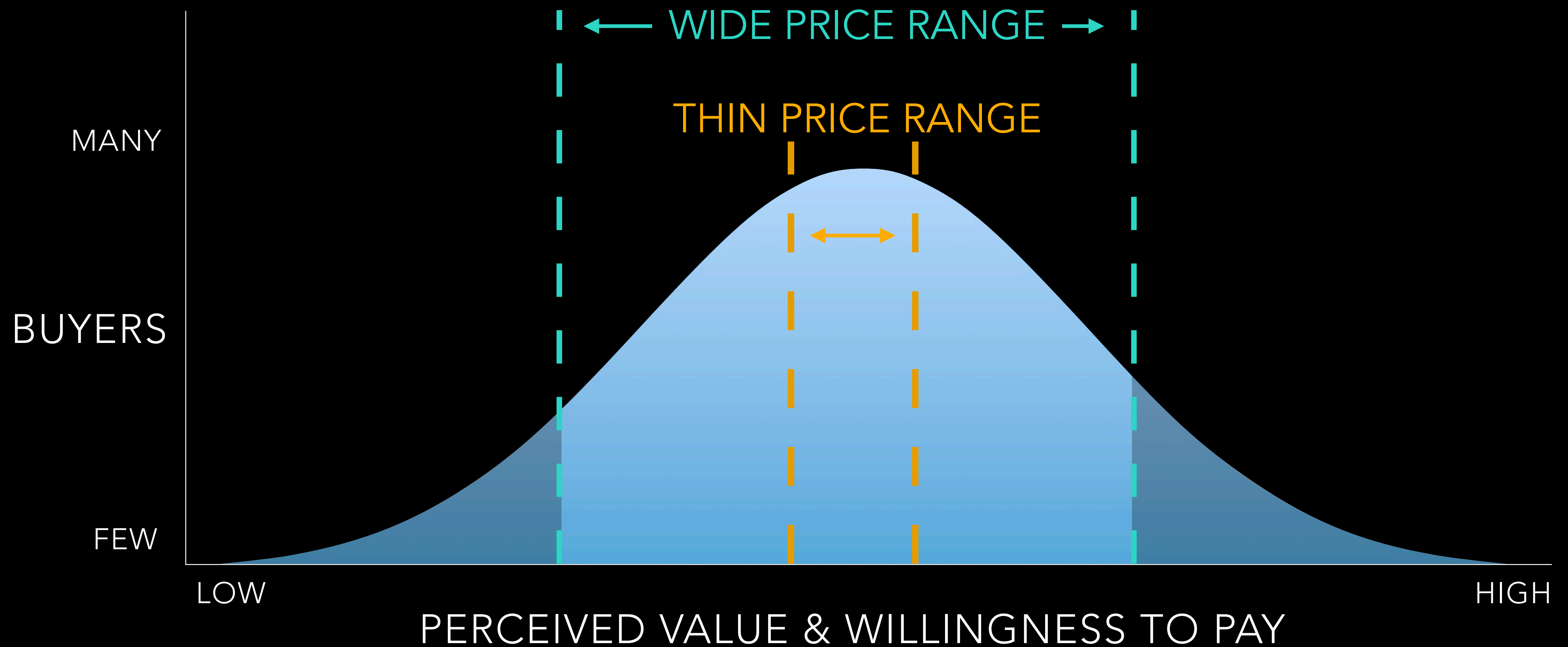


WHY DOES PRICE RANGE MATTER?



TO MAXIMIZE YOUR RETURN

EXPAND YOUR PRICE RANGE



YOU HAVE MORE POWER THAN YOU THINK

Use the full range
of your
pricing power



ANOTHER MISSED OPPORTUNITY




MOST COMPANIES SET-AND-FORGET

Optimizing pricing
more frequently
generates more revenue



Source: Profitwell 2018 ARPU Study

HOW *NOT* TO SET YOUR PRICING

Competition	Cost Plus	Ask Customers	Guess
		I ♥ Being Compliant	
Your competitor sets the price	Your costs set a floor for your price	Your customers set the price	Just wing it
They don't know the right price either	Don't let your costs set a ceiling	You're at their mercy	Why would you want to do this?

THE COMMODITIZATION DEATH SPIRAL

Match their features

Match their prices

They add features

You match features

They lower prices

You lower prices



REVERSING

THE COMMODITIZATION DEATH SPIRAL



Differentiate your pricing

Differentiate your product

SUBOPTIMAL PRICING IS RISKY

Weak monetization
starves your organization
of the **fuel** it needs
to innovate, market,
and deliver greater value



YOUR MOST POWERFUL TOOL

1% improvement in
pricing generates
more impact than
a similar improvement
anywhere else

Source: Marn & Rosiello, Harvard Business Review 1992



AGENDA FOR TODAY

☒ PRICING IS YOUR UNTAPPED SUPERPOWER

☐ PRICING IS MUCH MORE THAN A NUMBER

☐ 7 STEPS TO VALUE-BASED PRICING

☐ PRICING FOR MAXIMUM RETURN

THE ACTUAL PRICE IS A SMALL PART



THE ACTUAL PRICE IS A SMALL PART

To optimize your pricing model, you can adjust...

- Segment, Vertical, Ideal target customer, Buyer, Channel, Location, etc.
- Product, Positioning, Packaging, Social Proof, Design, Integrations, Guarantees, etc.
- Price, Localized pricing, Subscription vs. Purchase, Term, Bundles, Add-ons, Charm, Discounts, etc.
- Much more...

PRICING MODEL: EVERYTHING BUT THE PRICE

Pricing models present a prime opportunity for
strategic innovation & competitive advantage

THE POWER OF PRICING MODELS



You can generate value with innovative pricing models

THE POWER OF PRICING MODELS



You can generate value with innovative pricing models

THE POWER OF PRICING MODELS

NETFLIX

amazon *Prime*

 **slack**

You can generate value with innovative pricing models

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☐ 7 STEPS TO VALUE BASED PRICING

☐ PRICING FOR MAXIMUM RETURN

WHAT IS...

VALUE BASED PRICING?

Value based pricing aligns the **amount you charge** with the **amount of value your customers perceive**

7 STEPS TO VALUE BASED PRICING

Start here



1. Agree on your pricing objective
2. Discover customer values
3. Determine metrics
4. Segment for maximum return

Not here



5. Develop your pricing grid
6. Consider add-ons, bundles, & more
7. Test, iterate & optimize

ACROSS YOUR ENTIRE ORGANIZATION

1. ALIGN ON YOUR #1 PRICING OBJECTIVE

Revenue

Retention

Spark Interest

Profit

Market Entry

Others

Market Share

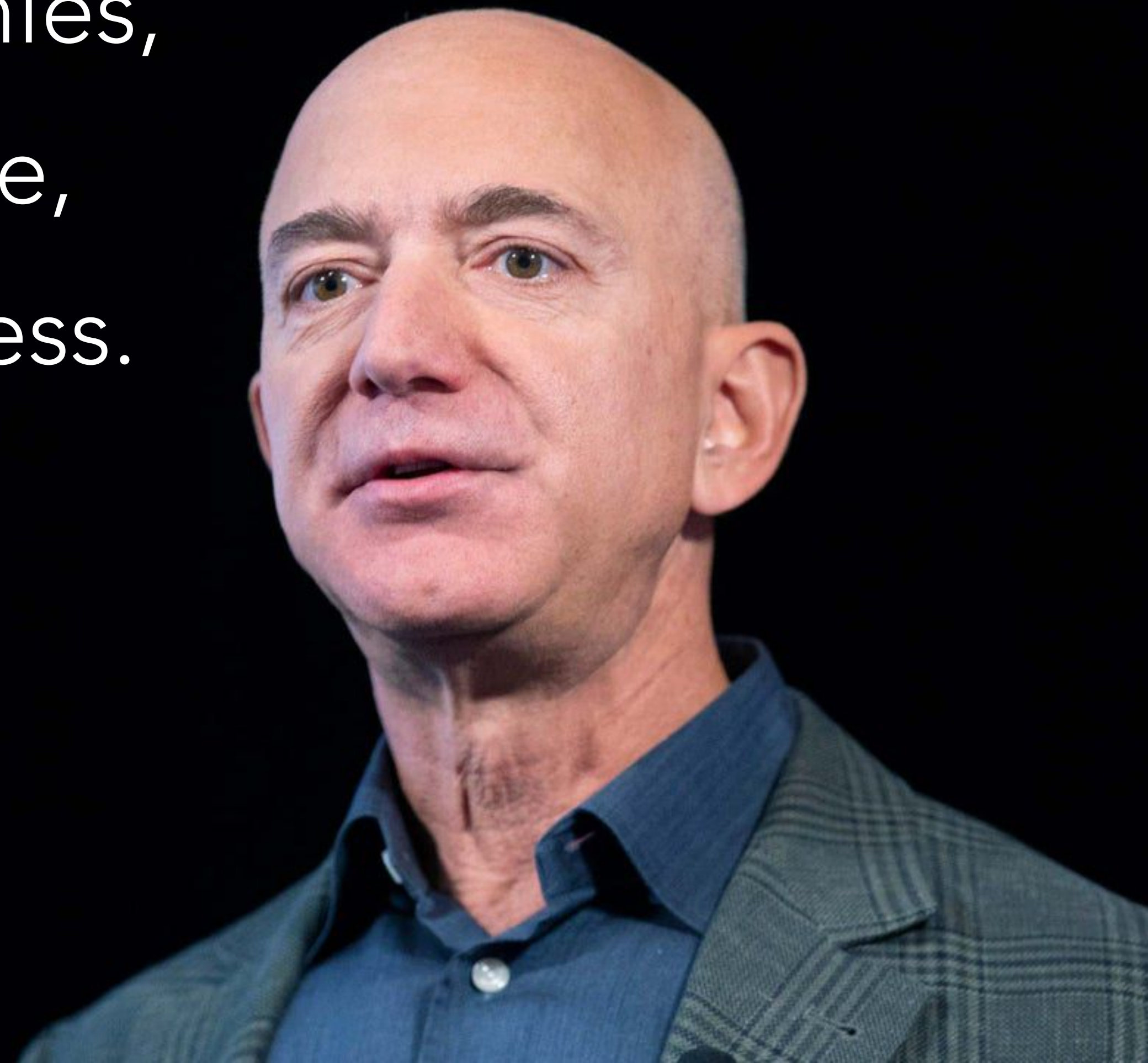
Block Competition



HIGHER PRICES AREN'T ALWAYS BETTER

“ There are two kinds of companies,
those that work to charge more,
and those that work to charge less.
We will be the second. ”

Jeff Bezos



OUTSMART YOUR COMPETITORS

2. ALWAYS DO YOUR RESEARCH

Discover your
customers' perception
of value



ALIGN PRICING WITH CUSTOMER PERCEPTION OF VALUE

3. DETERMINE KEY METRICS

Value metric

Pricing metric



DETERMINE KEY METRICS



Value metrics = ways customers measure worth

Speed

Transactions

Risk

Capacity

Leads

Fun

Comfort

Engagement

Closer Relationships

DETERMINE KEY METRICS



Value metrics = ways customers measure worth

Pricing metrics = units you choose to determine the price

Per user

Per lead

Per month of fun

Per GB

Per transaction

Per reduction in risk

Choose **pricing metrics** that best track the top **value metrics**

DETERMINE KEY METRICS



Value metrics come from researching your customers

Pricing metrics present opportunities to innovate

VALUE BASED PRICING IN ACTION

COST BASED PRICING	VALUE BASED PRICING	
Paper Magazine Ads	Google AdWords	
Charge For	Value Metrics	Pricing Metrics
Size & Location of ad, Color vs B&W, # of Magazines delivered	Ad effectiveness, Viewer relevance	Pay per click, Keyword demand

THE VALUE OF METRICS

Choosing what to **charge** for
has far more impact than
choosing the **amount to charge**

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CONSIDER EACH SEGMENT SEPARATELY

4. SEGMENT FOR MAXIMUM RETURN



New
iPhone 12 Pro



The ultimate
iPhone.

Buy



New
iPhone 12



A total
powerhouse.

Buy



iPhone SE



Lots to love.
Less to spend.

Buy



iPhone 11



As amazing
as ever.

Buy

CONSIDER EACH SEGMENT SEPARATELY

4. SEGMENT FOR MAXIMUM RETURN

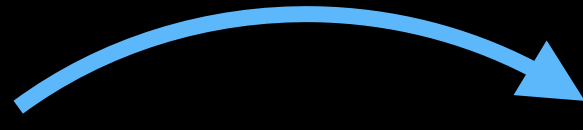
Different market segments often

- have different **perceptions of what's most valuable**
- perceive different **amounts of value** from the same product
- have different **value metrics**

To maximize return, identify best metrics for each segment

7 STEPS TO VALUE BASED PRICING

Start here



1. Agree on your pricing objective

2. Discover customer values

3. Determine metrics

4. Segment for maximum return

5. Develop your pricing grid

For another day

6. Consider add-ons, bundles, and more

7. Test, iterate & optimize

AGENDA FOR TODAY

- ☒ PRICING IS YOUR UNTAPPED SUPERPOWER
- ☒ PRICING IS MUCH MORE THAN A NUMBER
- ☒ 7 STEPS TO VALUE-BASED PRICING
- ☐ PRICING FOR MAXIMUM RETURN

USE YOUR UNTAPPED PRICING POWER



USE YOUR UNTAPPED PRICING POWER



TO PRICE YOUR PRODUCTS FOR MAXIMUM RETURN...

First agree on your **pricing objective**, then make sure you know:

- What your **customers value** most
- What are their **value metrics**
- What are your best **pricing metrics**
- What are the most **valuable segments** to target
- What are the **right prices**

YOU DON'T HAVE TO GUESS



ALL OF THESE ARE KNOWABLE

All of these depend on
your **customers' perception of value**

Customer perception of value
can be discovered & measured

DO YOUR RESEARCH: TALK TO YOUR CUSTOMERS!

You won't find
the right
pricing model
at your desk,
or by talking
with coworkers



WHAT'S A CUP OF COFFEE WORTH?



WHAT'S A CUP OF COFFEE WORTH?

Coffee with your customers to discover their values?



WHAT'S A CUP OF COFFEE WORTH?

Coffee with your customers to discover their values?



THANK YOU

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