



Chief  Marketer

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Introduction to pricing



Profitability vs. Market share

Pricing methodology

Set goals

Estimate demand & perceived value

Understand total cost

Estimate competitor pricing & costs

Set price levels

Set price structure

Iterate

Set your goals

EARLY GROWTH STAGE



SURVIVAL

Aggressive price, maybe below cost.
Buy time; Low marginal cost structure.

GROWTH

Low price, just above costs.
Aimed at winning new customers, stimulating demand, and capturing market share.

SKIMMING

High price, periodic discounting.
Unattractive markets; Limited capacity.

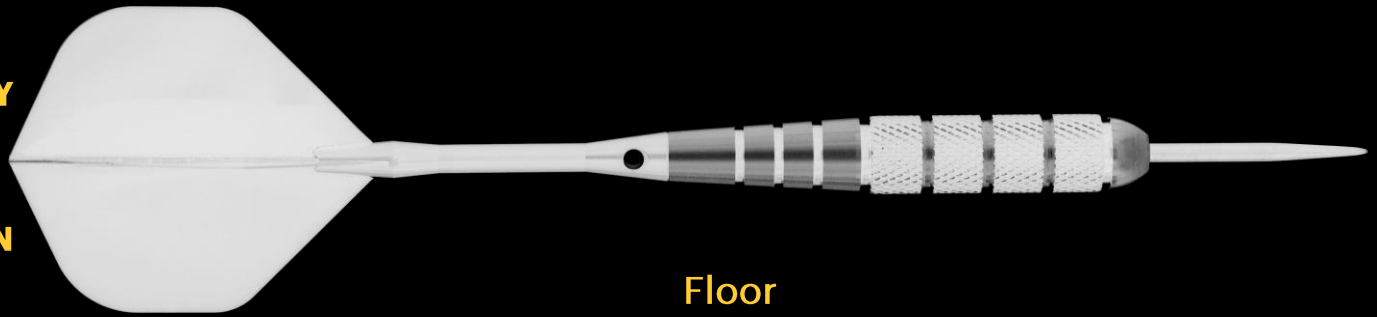
DIFFERENTIATION

High price against competitors.
Covers production, distribution and advertising costs. Reinforces prestige image.

HARVESTING

High Price.
Maximize margins and ROI to invest in new markets and revenue streams.

BUSINESS STRATEGY
PRODUCT & COMPANY
COMPETITION



Ceiling

Floor

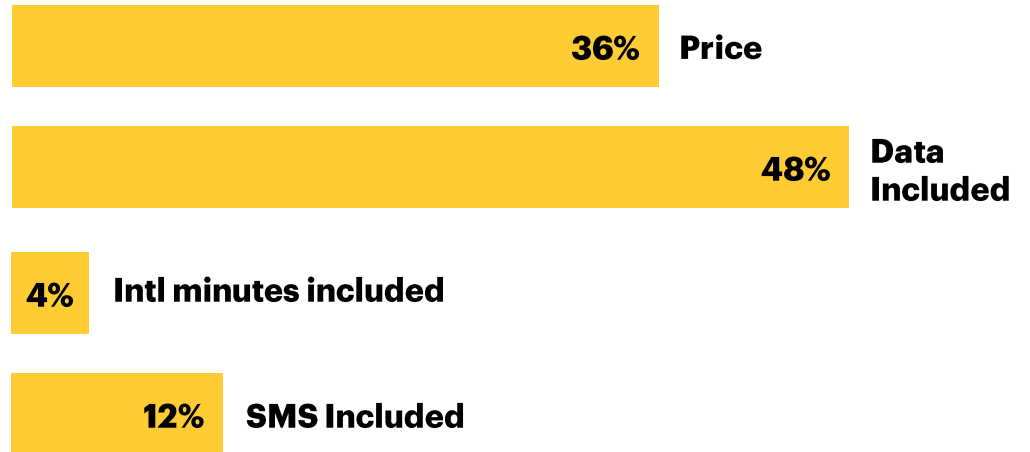
The Price Ceiling

Estimating price sensitivity

- Interviews & surveys
- Paid search & A/B testing
- Test markets
- Conjoint analysis

Conjoint analysis

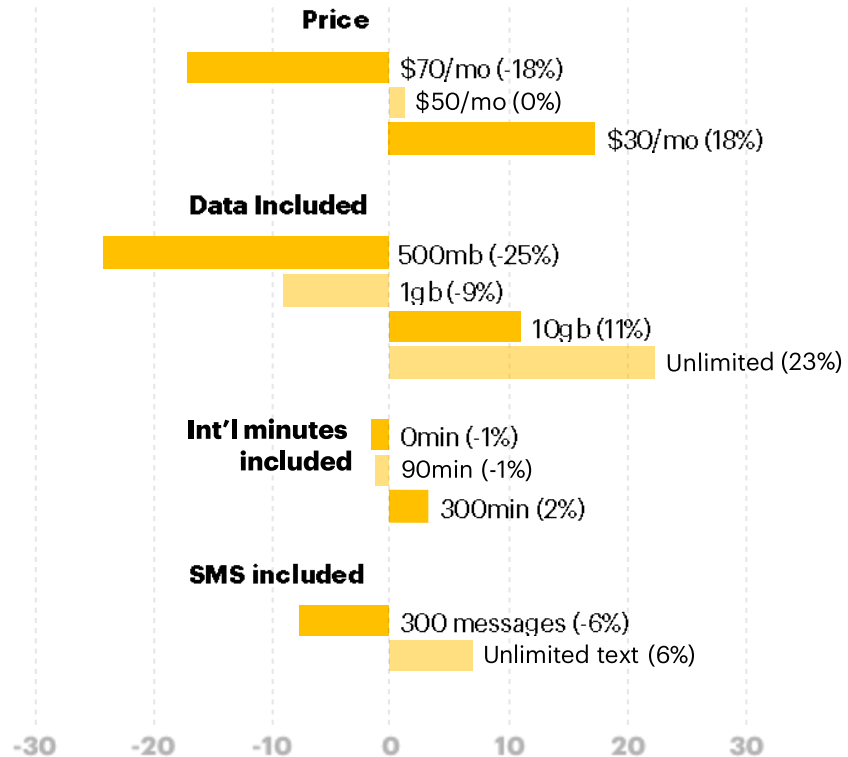
Relative importance



Conjoint analysis

Relative value

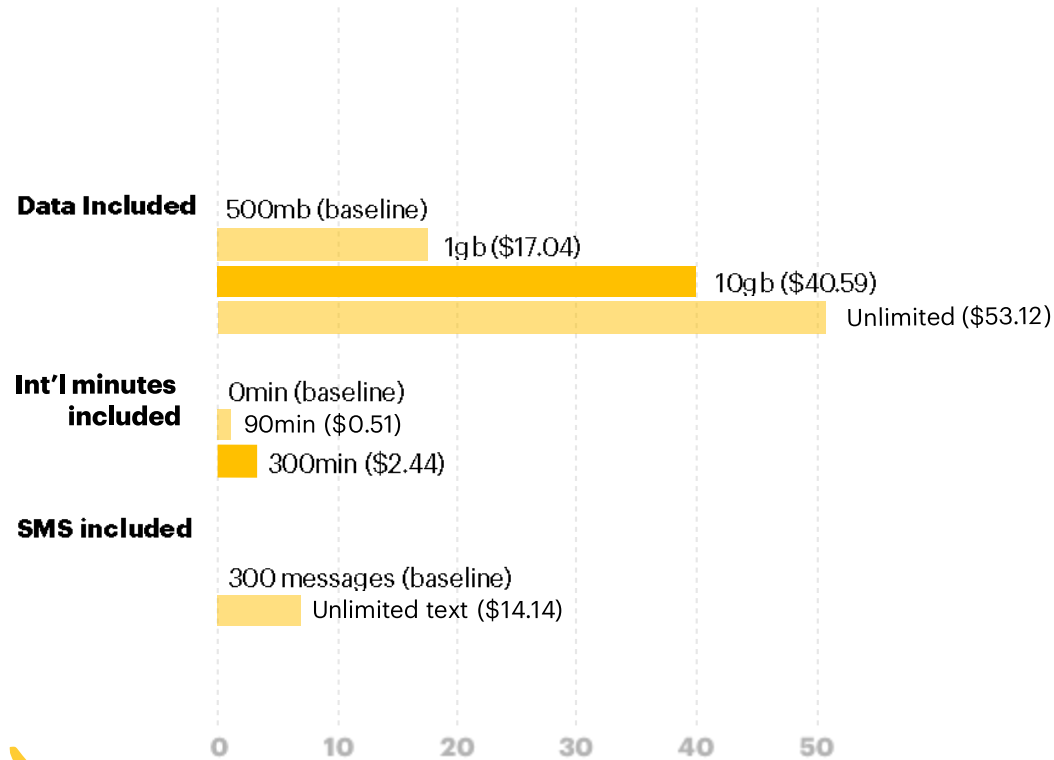
Relative value



Conjoint analysis

Marginal willingness to pay

**Marginal willingness
to pay for a feature to
baseline (\$)**



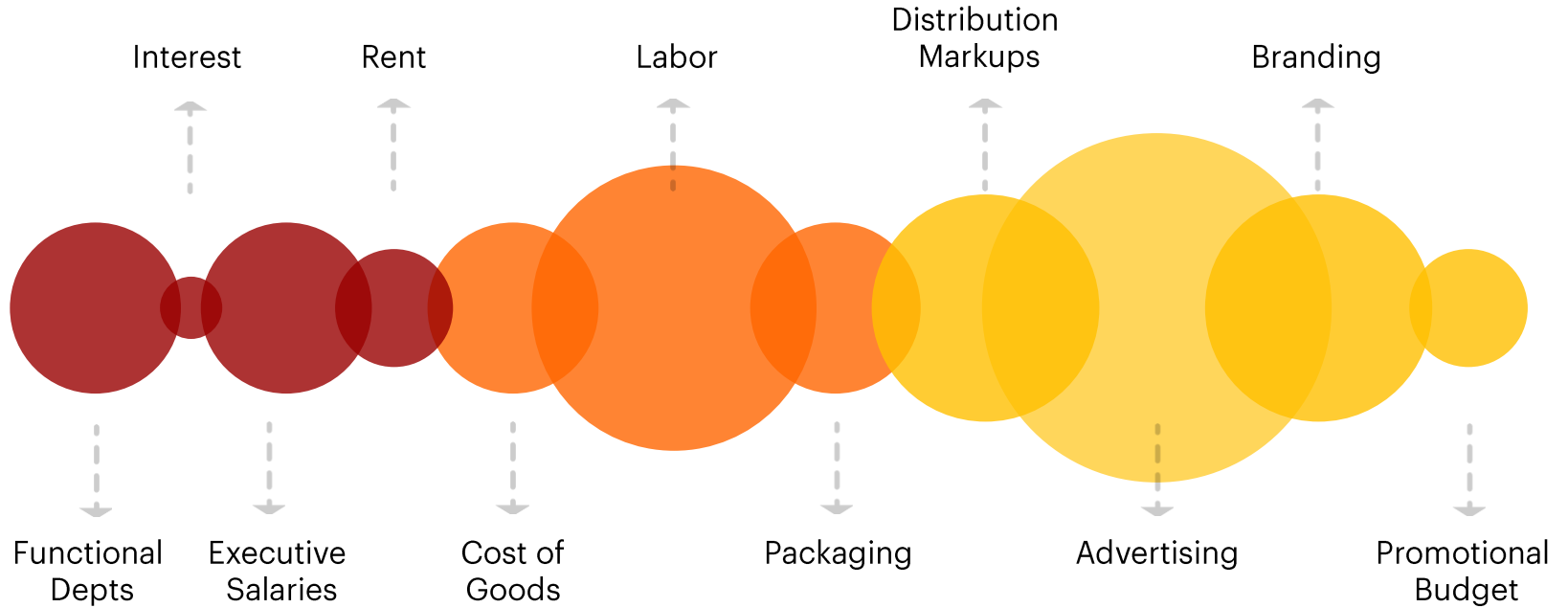
Influencing price sensitivity

**Ability
to pay**

**Perception &
preferences**

**Buyer
awareness**

The Price Floor



FIXED
 VARIABLE
 MARKETING MIX

Full = Total cost/units
= **\$5.13**

Direct = Variable/unit
= **\$3.78**



Revenue	Units sold	40,000
	Sales	\$220,000
Expense	Materials	120k
	Labor	20,000
	Overhead	10,000
	COGs	150,000
	Gross Profit	70,000
General & Admin	Salaries	6,900
	Rent	2,000
	Insurance	500
	Depreciation	170
	Other	3,000
Marketing	Advertising	40,000
	Collateral	1,500
	Promotional budget	1,200
	Total Expenses	205,270
	Taxable Income	14,730
Income Taxes		4,419
	Net Profit	10,311

A black and white photograph of two clenched fists wearing boxing gloves, positioned symmetrically on either side of the center. The gloves are dark-colored with a ribbed texture. The background is dark, and the lighting highlights the texture of the gloves and the skin of the hands.

Competitive analysis

Market pricing levels



Magic Offering

-  **UPSELL**
-  **UPSELL**
-  **BASE**



Competitor 1



Competitor 2



Competitor 3

Competitor's costs

- Reverse engineering
- Efficiency ratios
- Employees and customers

Set price level

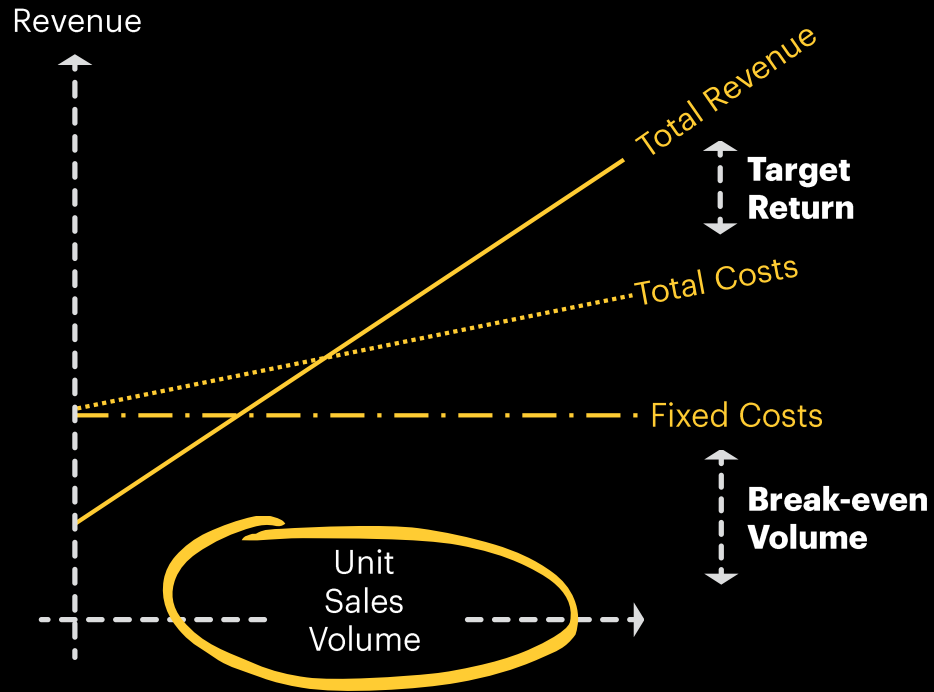
Cost-oriented methods

$$\text{Unit cost} = \text{variable cost} + \frac{\text{fixed cost}}{\text{expected unit sales}}$$

$$\text{Cost plus. Price} = \frac{\text{unit cost}}{1 - \text{desired \% markup}}$$

$$\text{Return. Price} = \text{Unit Cost} + \frac{\text{Desired \% Return} \times \text{Capital Invested}}{\text{Expected Unit Sales}}$$

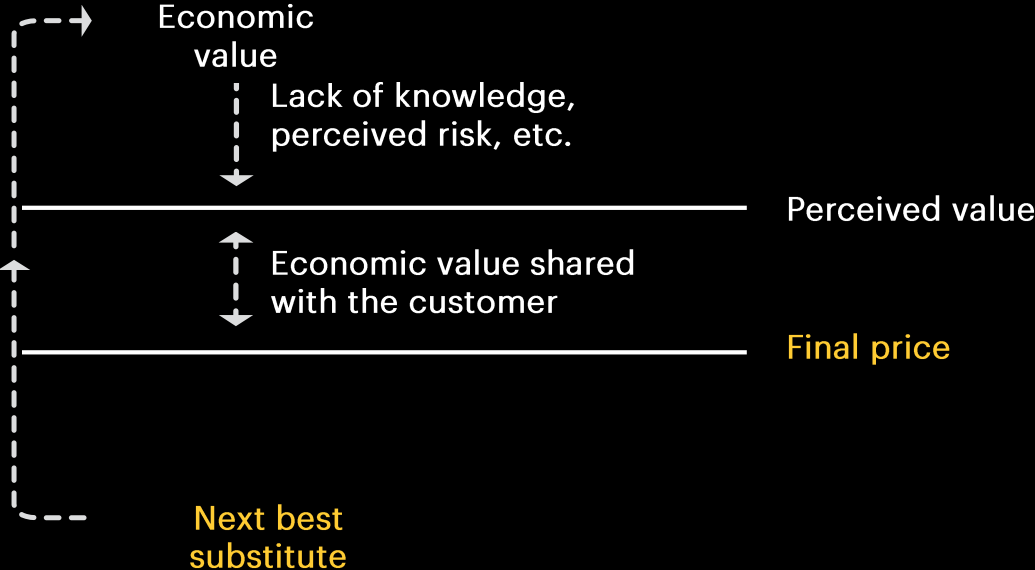
Cost-oriented methods



Competition-oriented methods

- Sealed bidding & auctions
- Going-rate
- Premium
- Perceived value

**Value of product
above the next
best substitute**





Customer-oriented methods

- Price lining
- Signal quality
- The power of 9
- Promotional pricing

Set a pricing structure

Discounts and allowances

- Trade discounts
- Quantity
- Cash
- Trade allowances
- Price promotions
- Coupons, rebates & refunds

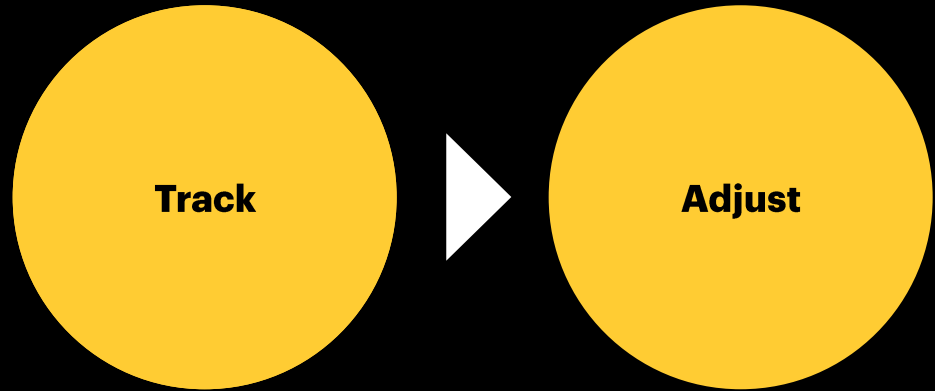
Differential pricing



- Time
- Location
- Other



Stay competitive



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