

Pricing Strategies for Startups Part 1

What we will cover today

1. Why pricing strategy matters!
2. 4 types of monetisation failure
3. Pricing graph
4. Features vs. Willingness to Pay (WTP)
5. Nine Rules of Monetisation
6. Freemium Strategy

What we will not cover today

- The Golden Rule of Segmentation
- Retail Banking Example
- Alignment of executive goals
- Price Elasticity Curve
- Value Selling
- Matrix of Competitive Advantage (MOCA)
- Pricing wars
- Methods of WTP Conversation

Today's Slides and Materials

1. Go to www.bigjump.com.au
2. Click on Resources Section

Why Pricing Strategy Matters

- “If you build it they will come”
- Design your product around customers’ WTP
- Understand what customers value most



Four Types of Monetisation Failure

1. Feature Shock
2. Mini-vation
3. Hidden Gem
4. Undead

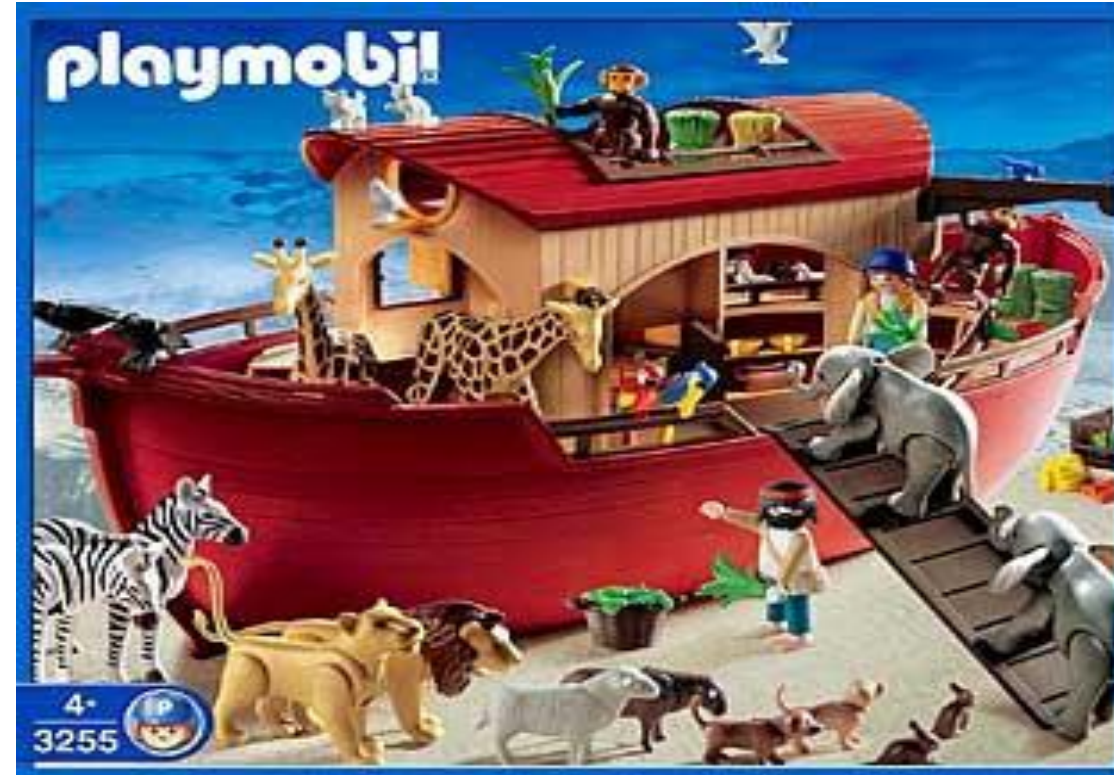
Feature Shock

- Cramming too many and sometimes the wrong features into a one-size-fits-all product
- Symptoms
 - Product driven culture
 - Over-engineering
 - Unclear value proposition
 - Too many escalations
 - Difficult selling
 - Frequent price cuts



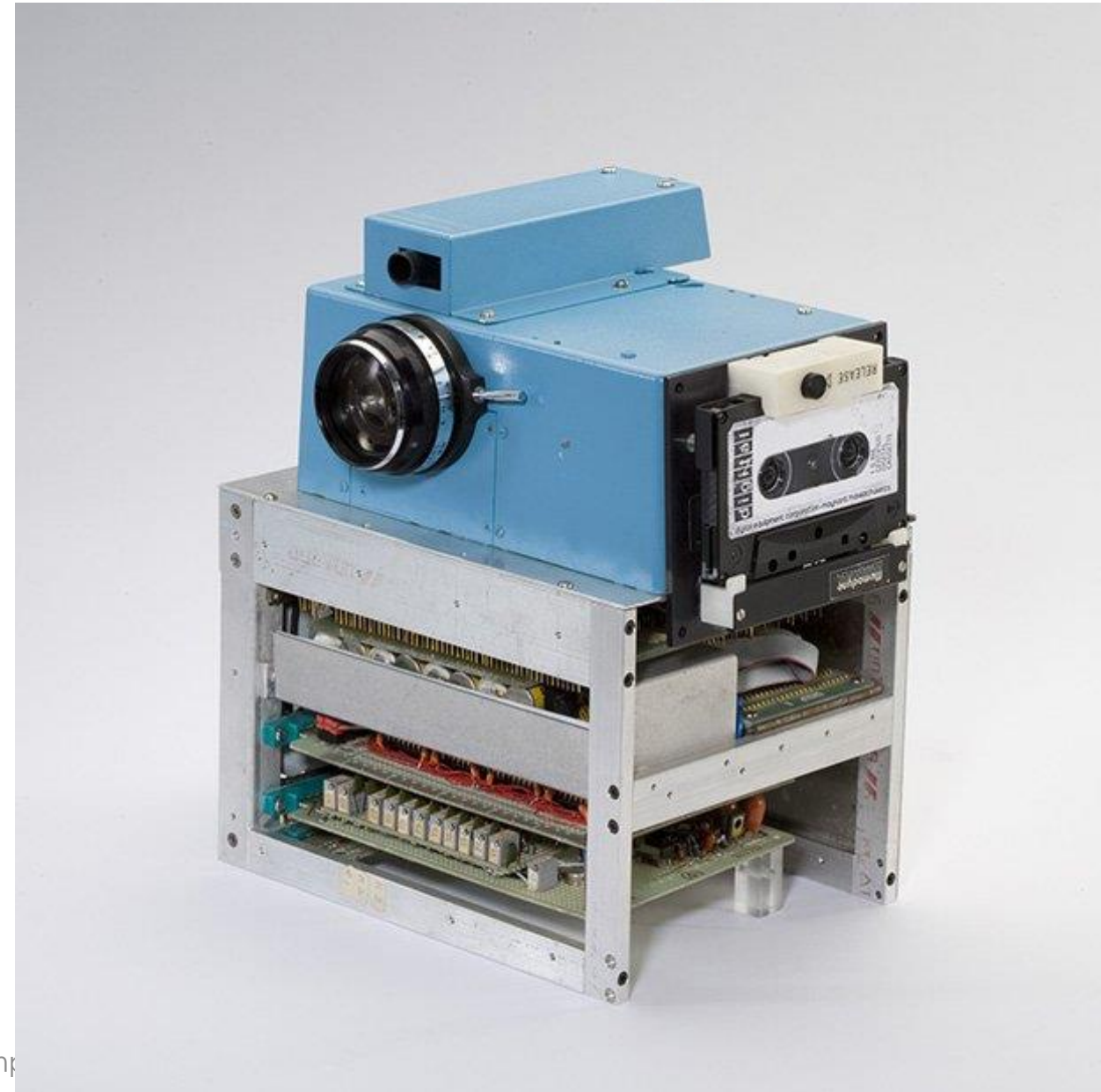
Mini-vation

- Despite being the right product for the right market, it is under-priced and does not achieve full market potential
- Causes
 - Lack of ambition
 - Low balling targets
 - Few pricing problems
 - Fast sales cycle
 - Sales Easily hits targets



Hidden Gem

- A blockbuster product that is never properly brought to market because it does not get recognised
- Causes
 - Lack of recognition
 - Play it safe mentality
 - Outside comfort zone
 - No one responsible for harnessing gems
- Occurs whenever there is a disruption or change: in business model, channel strategy, focus change from product to services etc.

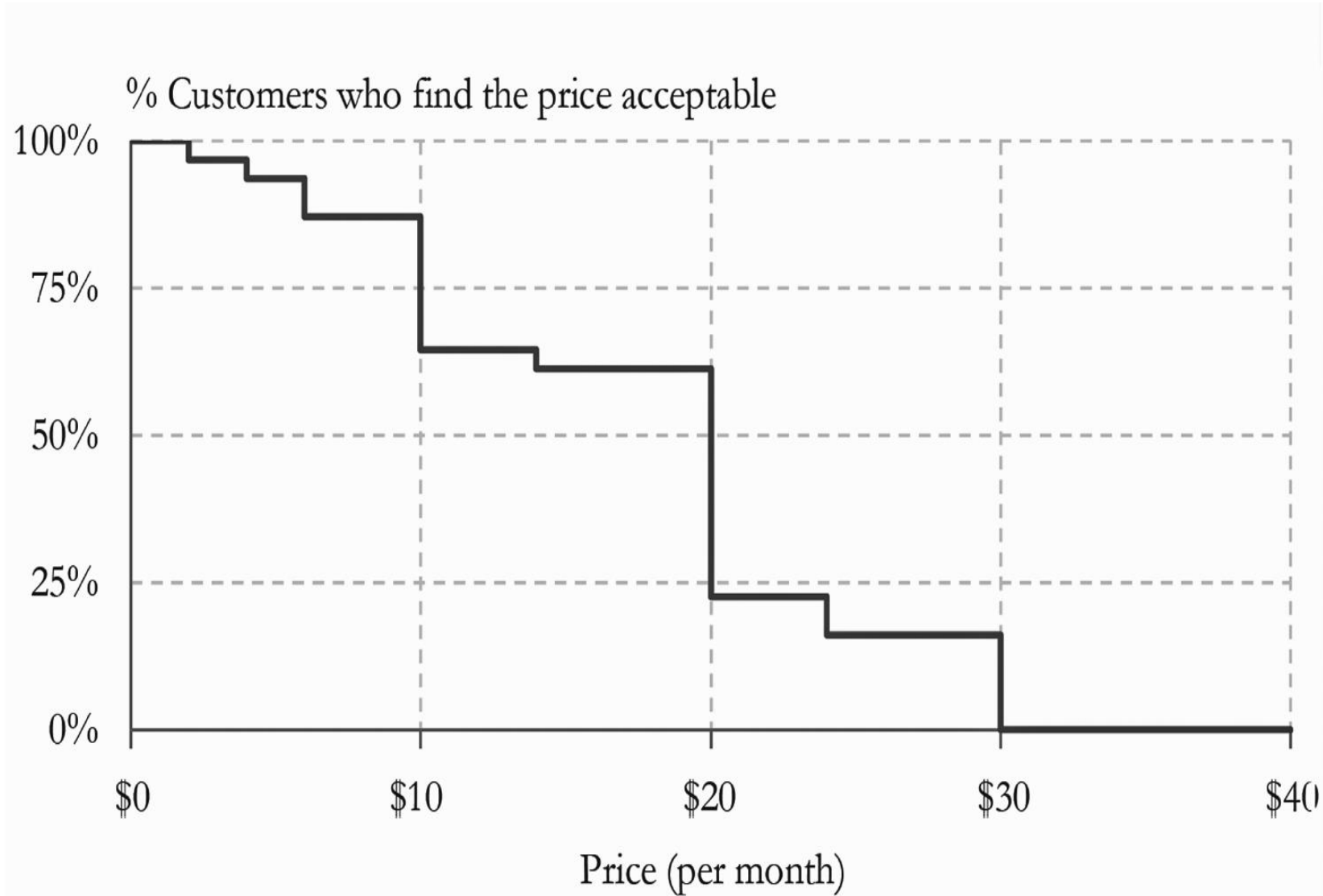


Undeard

- Products that should have been killed – Answers to questions no one asks or the wrong answers to the right questions!
- Causes
 - Lack of objectivity
 - Yes-maybe-no culture
 - Pet projects
 - Very low demand
 - Sales struggles
 - Negative press



Pricing Graph



Features vs. Willingness to Pay

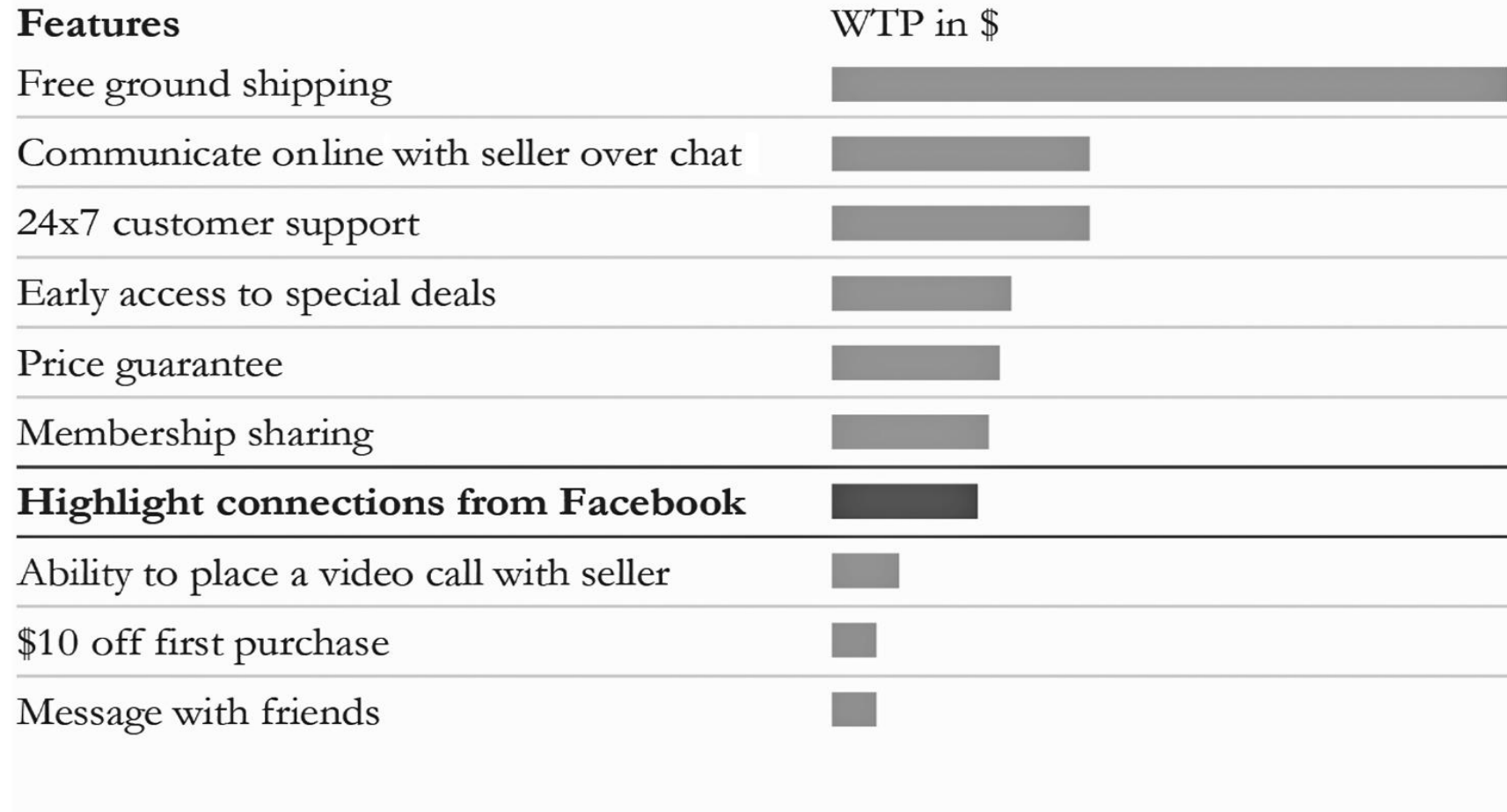


Figure 4.2 Willingness to Pay for Features

Nine rules of monetisation

1. WTP Talk earlier
2. Define segments based on needs, values and WTP
3. Ensure bundling and packaging are not afterthoughts
4. Choose revenue/price model wisely
5. Pick the winning price strategy
6. Build business case using WTP information
7. Develop right value message
8. Employ behavioural pricing principles
9. Maintain your price integrity

Freemium Strategy

- Freemium only works with 50M active users
- It requires
 - Mass Appeal
 - True viral component
- Freemium Examples
 - Slack is freemium: \$200m ARR
 - Dropbox: \$1b ARR



References

- [Monetizing Innovation: How Smart Companies Design the Product Around the Price](#)
- [Why you need 50 million users for Freemium to actually work \(SAASTR\)](#)
- [Is the Freemium Model still viable?](#)
- [Four Flavours of Pricing Failure](#)