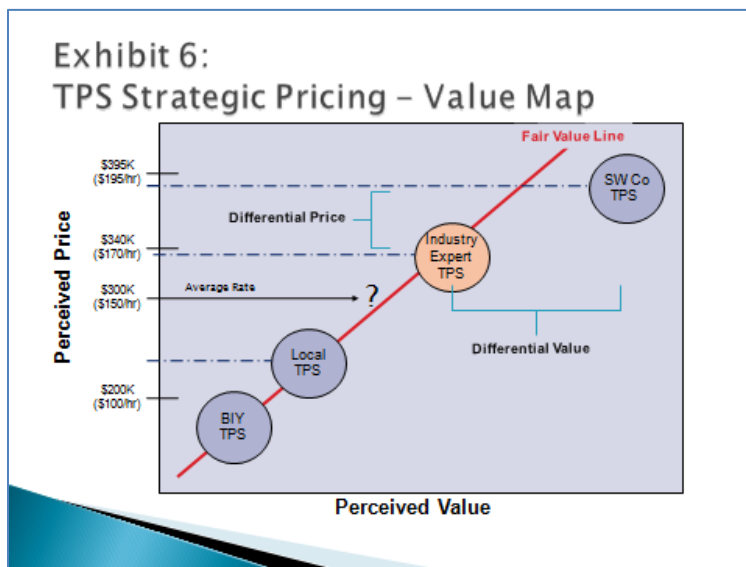




## Pricing New Offerings – Use the right tool and don't forget . . . .

When pricing new B2B offerings – products, services or solutions – you essentially have five tools at your disposal. Choose the tool or tools that best meet your needs.

1. **Economic Value Models** are the foundation. No other tool is better at accurately estimating the economic value of an offering, demonstrating it to a client or documenting impact. Models I have seen have several weaknesses, the first of which is simplistic analysis that misses key elements of value. A second weakness is a direct result of its strengths. Because it is a micro-economic model, it lacks a macro or strategic view. A third weakness is not focusing on the differentiating value of the offering. Helping a client make a million dollars is irrelevant when your next best competitor makes her two.
2. **Value Maps** are best for strategic price positioning. If you need to visualize your market position relative to multiple competitors and plot a strategic pricing move, value maps can't be beat. Value maps also can give you insight into the strength of offering attributes providing direction for product development. Here is a technology professional services example



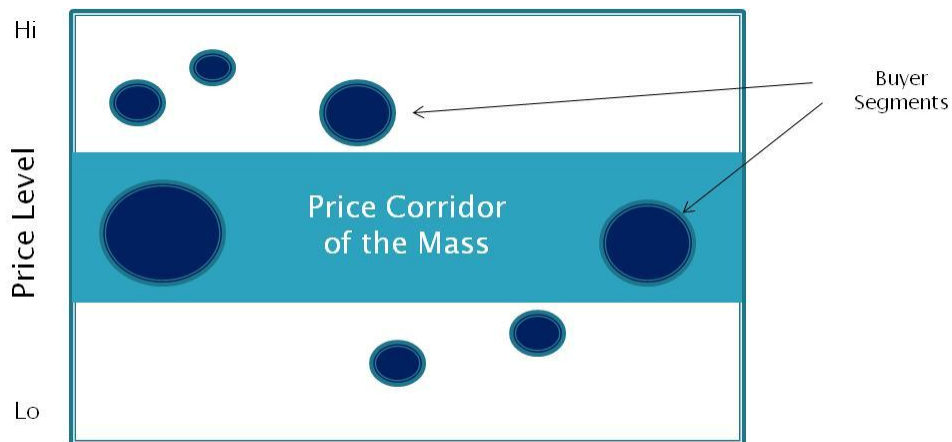
As with Economic Value Models, a key weakness is related to its strength: it is a macro model, and lacks a micro perspective. You can't precisely set a value based price using a Value Map. You can't make tactical pricing decisions using a value map. Finally value mapping tends to under estimate the value of innovation.

3. **Naked Solutions + Options** analysis is best for structuring a complex offering that needs to be tailored and priced for multiple sub segments of customers, with different willingness to pay.



For example, you may provide software to the financial industry. Your core software does not change, but it needs to be tailored to the credit card, mortgage banking and auto finance segments. Then your offering and core price, the Naked Solution, remains the same for all segments. Each segment, however, must purchase a tailored solution, the Option, to meet their specific needs. The tailored option permits premium pricing, while the common core permits cost control.

4. **Tradeoff Analyses** are best for deciding which attributes of an offering are most valued by a customer, and how much they are willing to pay for them. If regular support and maintenance revenues come under pressure, Tradeoff Analysis may be a highly useful tool to sort out features to keep, those to cut and how much customers are willing to pay for what's left. After all, the real goal is not maintaining the 17% recurring maintenance revenue stream. Rather the goal is to maintain the real margin dollars associated with those revenues.
5. **Price Corridor of the Mass** is best for deciding a single price across multiple customer groups when your differentiation is difficult to protect. Consider technology hardware. Traditionally new offerings were priced for early adopters willing to pay a premium price. Then prices were decreased as new competitors entered and to crack the early majority. With competitors increasingly able to rapidly replicate innovation, you may not have time to march down the price curve. You need to set your best price today. Price Corridor of the Mass facilitates that process.



Source: Kim & Mauborgne

**Finally, don't forget** that your job is to make your case. Especially with new offerings, your client may not have a clue about the value you bring. In fact, your initial approach may be ridiculed if your value proposition seems too good to be true. As in many areas of life, the most profitable path is not always the easiest.

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