THE CUBE By Monevate
THE MONETIZATION COMMUNITY FOR XAAS LEADERS

Price Setting Fact Bases

Masterclass Presented by James Wilton

THE CUBE
THE MONETIZATION COMMUNITY FOR XAAS LEADERS

Overview of Monetization Masterclasses

Overview:

Welcome to our bi-weekly Masterclass series on XaaS pricing and packaging!

Today's Topic

Key Criteria for Determining the Optimal Price Metric(s)

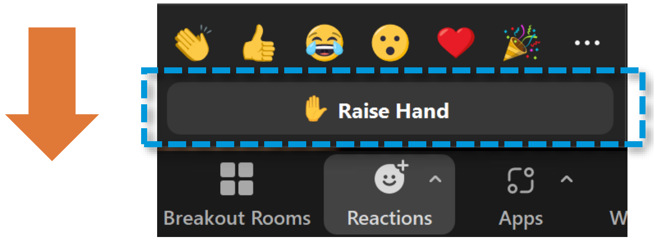
Rough Agenda

- Min. 5 – 35 – Review Core Principals & Cases
- Min. 35 – 55 – Q&A
- Min 55 – 60 – News + Wrap Up

Masterclass Norms

Masterclasses are not intended to be "webinars" – they are content-facilitated discussion groups

- **Please be "on camera"** if you are able to be
- **Raise your hand** to ask a question or raise a point



- If you are not able to speak live, **send questions in the Zoom chat**

Key Takeaways

1. Price metrics are used to scale price in accordance with value delivered
2. There are multiple types of price metrics
3. There are six key criteria for evaluating price metrics against each other. Rigorous evaluation is recommended to align on the *true* importance of each criteria, and the *true* performance of each metric
4. Your business objectives can help in a tie break, as they will determine the relative importance of criteria
5. Implicit and explicit metrics can be combined to optimize value alignment

Members can download the price metric evaluation guide here:

https://the-cube-monevate.mn.co/posts/price-metric-evaluation-guide

Companies can choose from many categories of price metrics, and should pick one that is win-win for them and the customer

Category	Example metrics	Example companies
User-based	# seats # active users # endpoints	zoom, okta, DocuSign
Usage-based	# transactions # API calls	twilio, Informatica, zoominfo
Capacity-based	# GBs # cores	mongoDB, aws, fastly
Business-based	Company revenue # Employees # Customers	BIGCOMMERCE, paycom
Outcome-based	$ revenue-generated Increase in usage	LIVEPERSON

When evaluating price metrics for client offerings, we consider performance across six primary criteria

Price Metric Evaluation Criteria

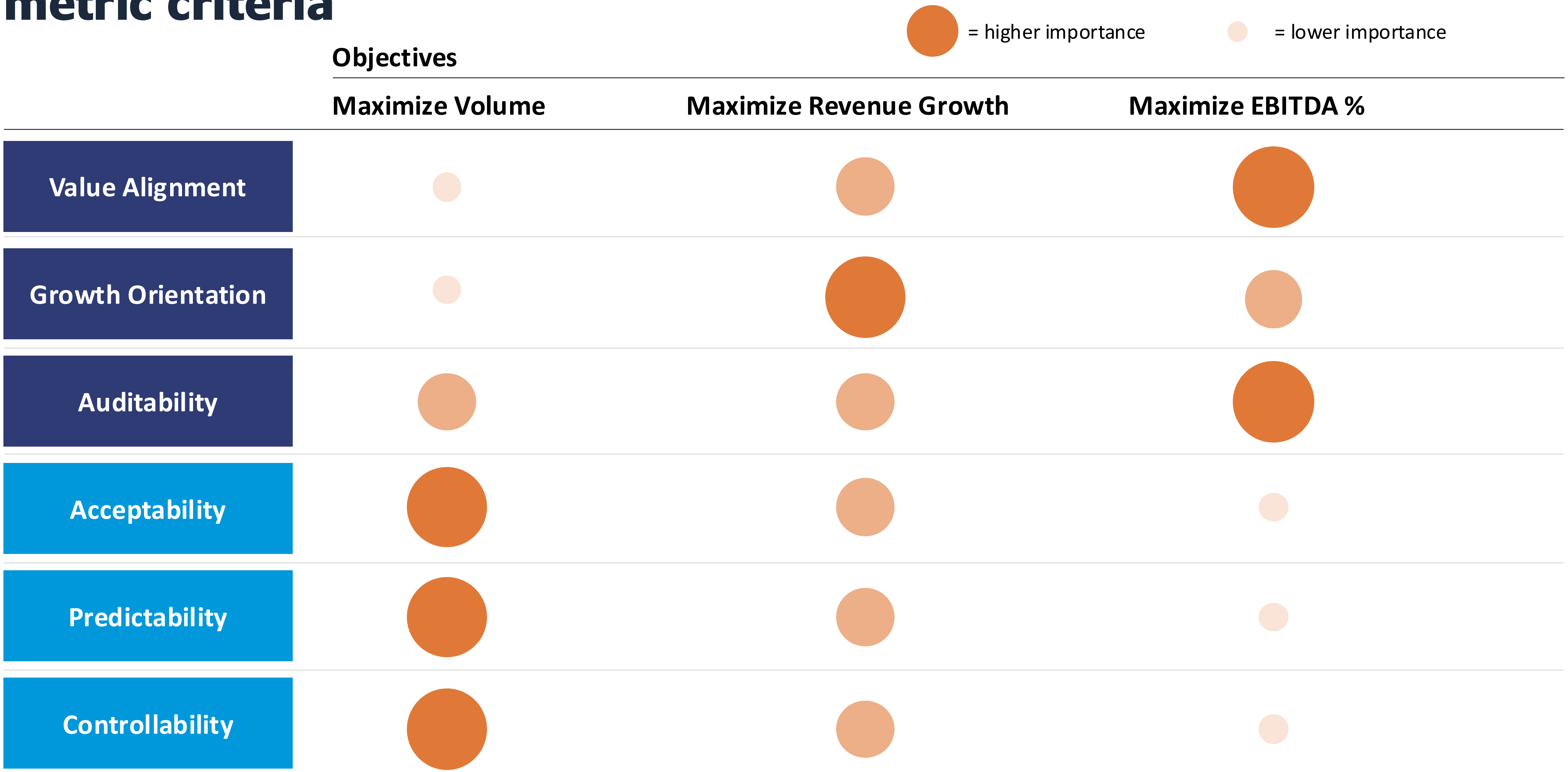
Criteria	Description	
Acceptability	How **receptive** would the customer be to using this metric as a basis for price?	Important to the customer
Predictability	To what extent can the **customer predict his or her value on the metric**, and therefore what they would need to pay?	
Controllability	To what extent can this metric be **controlled and ramped up or down** by the customer?	
Link to value	To what extent does the customer **receive more value from the product as the metric increases**?	Important to the vendor
Growth orientation	To what extent could this metric be **expected to grow** for an individual customer over time?	
Auditability	How objectively can this metric be **measured**? How **easy is it to obtain the information** or data required to audit the metric?	

In this example, we evaluate four viable price metrics for a website-as-a-service to unveil the strength of # of web pages as a metric

Price Metric Evaluation

Criteria	# of Web Pages	Webpage Traffic	Customer FTE's	Annual Company Revenue
Acceptability	Highest acceptability across metrics from market survey	Relatively high acceptability across customers	Low acceptability across customers	Low acceptability across customers
Predictability	Very easy for customers to predict how their website will scale	Somewhat hard to predict as it depends on multiple factors (competitors, growth)	Predictable and does not *usually* fluctuate significantly within short time frames	Somewhat predictable through company's historical data and internal forecasting
Controllability	Customers choose how many webpages to create	Customer will have limited impact on driving total category traffic	Cannot be controlled as it relates to website usage	Cannot be controlled as it relates to website usage
Link to value	Incremental pages will generate additional value	Traffic aligns with value and visibility	Indirectly controls for differences in value by company size, but not considered LTV by most customers	Indirectly controls for differences in value by company size, considered LTV by some customers
Growth orientation	Likely to grow over time, but at a slow rate	Generally expected to grow over time, but some pages may lose traffic	Would slowly grow as customer grow their business	Would grow as customer grow their business, indirectly grows with usage
Auditability	Easy to define and measure through internal data	Simple to measure in broad timeframes	Can be estimated through company's data and external data sources	Can be roughly estimated through company's data and external data sources

Your objectives can shape the relative importance of your price metric criteria



An option for B2B pricing structures is to include both explicit and implicit pricing metrics in setting price levels

Implicit vs Explicit Pricing Metrics Overview

What is the difference?

Explicit Price Metrics…

- …are **visible and directly scale pricing** for customers
- …should be **value aligned for customers**, i.e., customers get more value as this metric increases

Implicit Price Metrics…

- …are often **not visible to customers**, but can better align price with customers' willingness-to-pay
- …are generally **based on customer attributes** (e.g., enrollment) as opposed to product usage

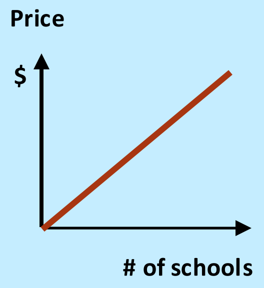
Why would you use them?

Using a **combination** of explicit and implicit metrics will:

- Simplify the perceived pricing for customers
- Increase the "built-in" flexibility of pricing structure on the back-end

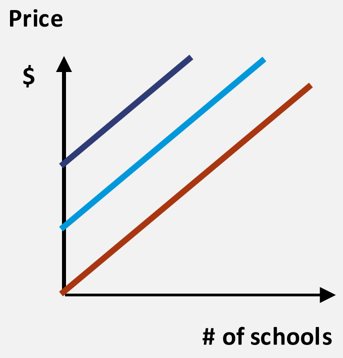
Illustrative example

Explicit Metric: # of Schools *(what customer sees)*



Customers see a **simple pricing structure** in which price is higher or lower based on the # of schools. This directly ties to the value of the product they get.

Implicit Metric: Enrollment *(what sales rep sees)*



A sales rep sees **multiple price scaling options**, and can select the most appropriate one based on, for example, school enrollment.

THE CUBE
By Monevate

Please use the QR code to
RSVP and save your spot!
monevate.com/the-cube-rsvp

Upcoming Masterclass Topics:

July 1st: Freemium
Evaluate whether freemium is right for your business and how to design a freemium offering that drives ARR

July 18th: Price Setting Fact Bases

New day and time! Thursdays @ 1pm EST

Understand the key sources of quantitative and qualitative data you should be using to fuel your pricing strategy design