

Determining the Optimal Price Metric(s)

Masterclass Presented by James Wilton



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 Principles & 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>

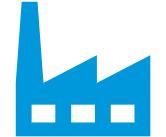


#1: Price metrics are used to scale price in accordance with value delivered

NOTES:



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	  
	Usage-based # transactions # API calls	  
	Capacity-based # GBs # cores	  
	Business-based Company revenue # Employees # Customers	 
	Outcome-based \$ revenue-generated Increase in usage	

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?	
Predictability	To what extent can the customer predict his or her value on the metric , and therefore what they would need to pay?	Important to the customer
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 ?	
Growth orientation	To what extent could this metric be expected to grow for an individual customer over time?	Important to the vendor
Auditability	How objectively can this metric be measured ? How easy is it to obtain the information or data required to audit the metric?	

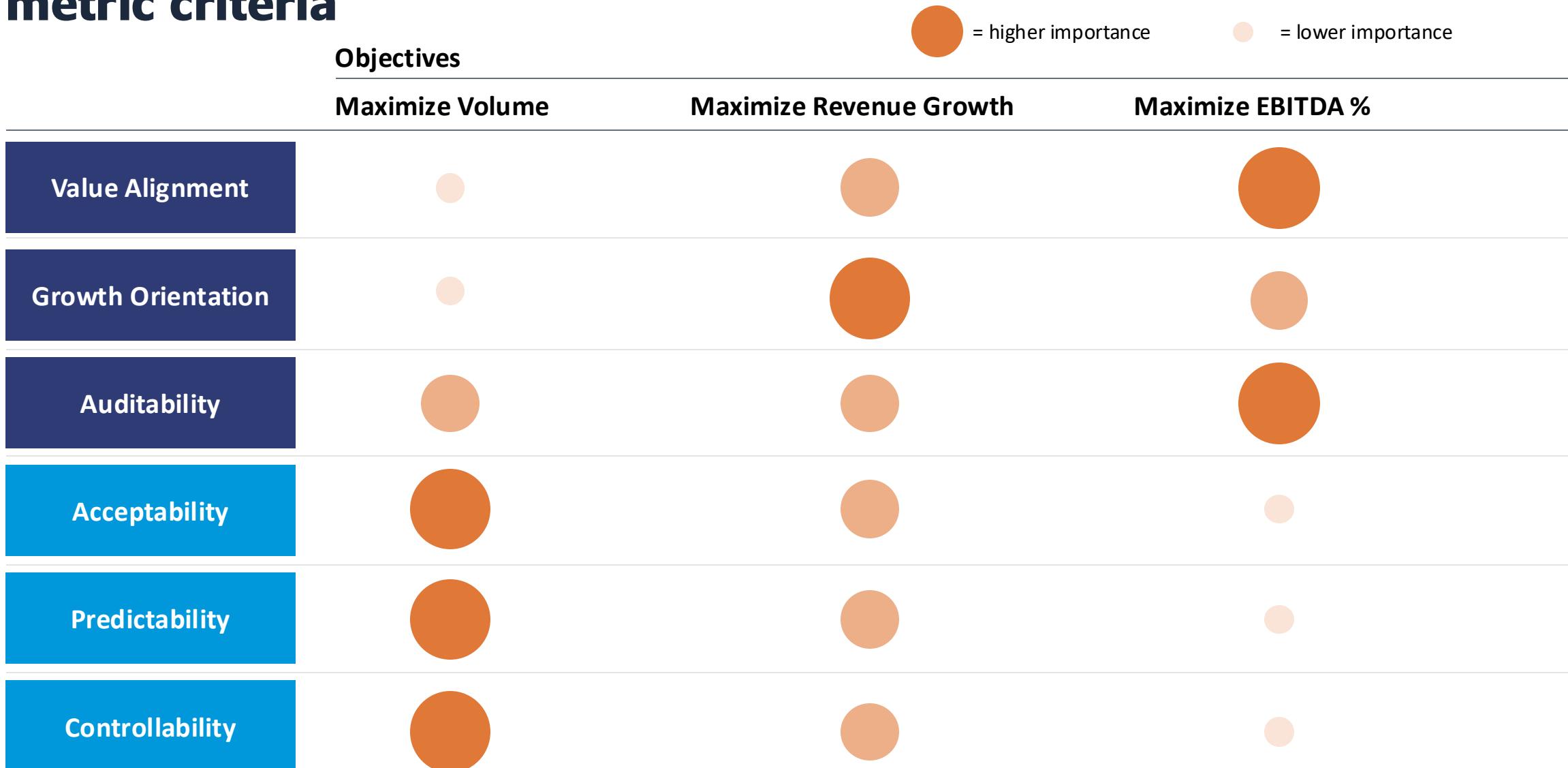


In this example, we evaluate four viable price metrics for a website-as-a-service to unveil the strength of # of web pages as a metric

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 <i>usually</i> 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

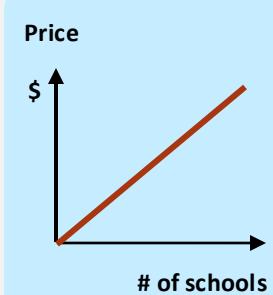
Why would you use them?

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

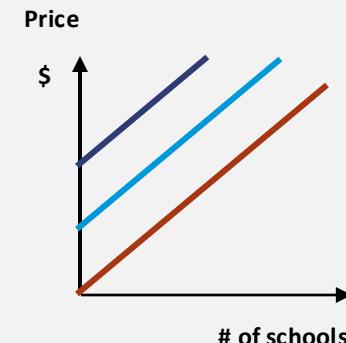
Illustrative example

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.



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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