

# Monetizing New Capabilities

Masterclass Presented by James Wilton on April 1<sup>st</sup>, 2024



# Today's Session

1

Overview of Monetization Masterclasses (2 min.)

2

Introduction to Monetizing New Capabilities (5 min)

3

Frameworks & Case Study Review (30 min.)

4

Discussion (15 min.)

5

Upcoming News (2 min.)



# Agenda

- 1 Overview of Monetization Masterclasses
- 2 Introduction to Monetizing New Capabilities
- 3 Frameworks & Case Study Review
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- 5 Upcoming News



# Overview of Monetization Masterclasses

## Overview:

Welcome to our bi-weekly masterclass series on XaaS pricing and packaging! In today's session, we are diving deep into the intricacies of topics that are crucial to your XaaS product's profitability and success.

## Why pricing and packaging matter:

Pricing and packaging decisions can make or break a XaaS company's growth and profitability. By the end of this masterclass, you'll be better equipped with tools and knowledge to help you make informed decisions that can positively impact your XaaS business. Whether you're a seasoned professional or new to XaaS, you'll gain valuable insights to drive your pricing and packaging strategies forward.

## What to expect:

- ✓ In-depth insights into strategies
- ✓ Real-world examples and case studies
- ✓ Practical steps for implementation
- ✓ Opportunities for interactive discussion and questions

## How to Engage:

- **During the presentation:**
  - Please be **“on camera”** if you are able to
  - **Raise your hand** to ask a question
  - If you are not able to speak live, **send questions in the Zoom chat**
- **During roundtable discussion:** Speak up with your questions and perspectives!
- **After the masterclass:** Post on the Community Feed or email [cubesupport@monevate.com](mailto:cubesupport@monevate.com) with questions and feedback



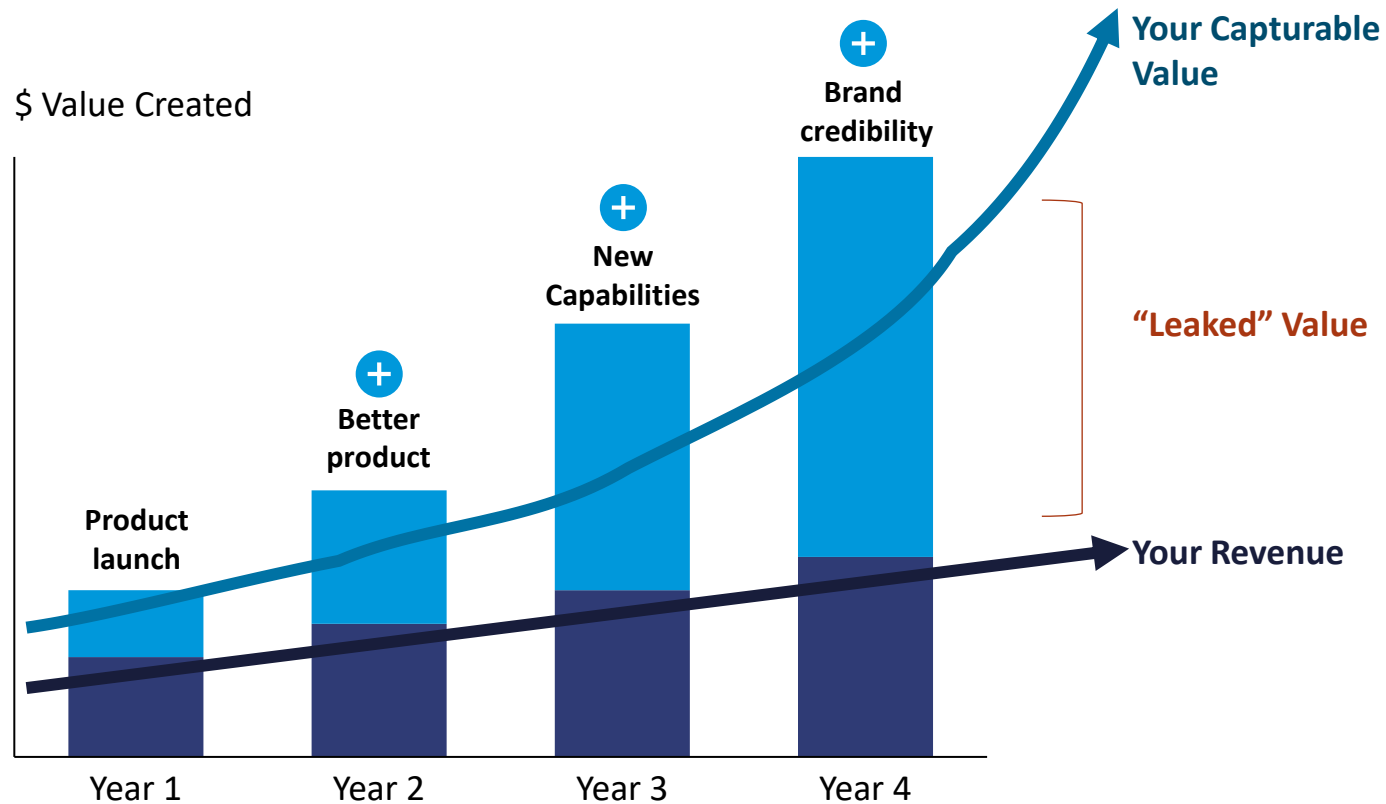
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# Getting pricing wrong when launching a capability has long-term impacts on revenue

## Illustrative Growth Over Time



As you grow, the value that you provide customers increases – through improvements in product, customer service / success, and brand credibility.

The wrong pricing strategy could result in “leaking” that value and missing out on increased revenue over time.



# Pricing New Capabilities

## Three key questions:

1. How should I **incorporate new features and functionalities** into my pricing structure, and **monetize them**?
2. How do I decide on the **right price level** for a new capability?
3. What steps can I take to **ensure my pricing model is flexible enough** to accommodate future product advancements?

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# New functionality can be placed within existing packages/products or as an add-on based on differentiation, value, and cost

## Packaging Frameworks for New Capabilities

### Question

Is the functionality **foundational**?  
(Or Does it drive up the price metric!?)



Is it **differentiated** *but* within current use cases?



Does it add **distinctive new capabilities** in new areas but isn't (yet) standalone?



Is it **differentiated and wholly stand alone**, or does it have **high usage costs** ?

### Categorization Recommendation



It should be a **feature in the standard / core package**.



It becomes a **feature in one of the premium packages**.  
Decide which one, by determining where there is a natural fit



Either:  
(a) **put it in a premium package**  
(b) **roll it into an existing add-on**



**Make it a separate module or add-on**, with price scaled by the right metric

Consider raising the price to reflect value (see later)

But what **metric** do we use?



# New capabilities can be assigned new or existing price metrics depending on how value and costs scale

## Metric Selection Frameworks for New Capabilities

To decide what metric to use for a new add/on or module, it's important to ask two questions:



1. Does **value** scale with the same metric as the existing product?
2. Do **costs** scale with the same metric as the existing product?

Cost-Scaling metric	Different from Value	Keep same metric  + Fair usage cap + pass through	New metric  + Fair usage cap + pass through
	Same as Value	Keep same metric	New metric
		Same as Current	Different / New
		Value-scaling metric	



# Case Study: We helped a client monetize two new AI capabilities

## Context

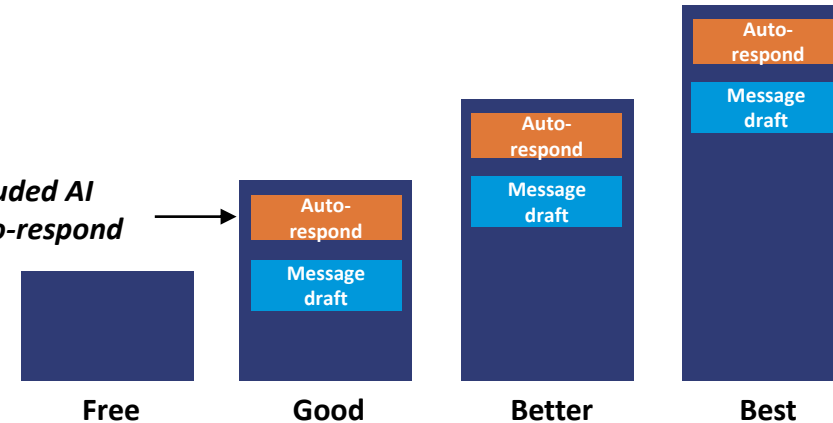
- Customer support software platform
- Primarily a PLG sales motion, focused on SMB and mid-market
- Currently had a tiered packaging structure and per-user pricing
- In the process of adding **two new AI capabilities**:
  -  **Message Draft** - drafting support messages
  -  **Auto-respond** to questions that customers ask
- The AI features that are **being added** have a **high cost** to use

## Updated Packaging

*AI support draft add-on* →

+ Additional capacity for more message drafts

*Included AI auto-respond* →



## Updated Price Metrics

● # of Drafts

● Size of audience

- ✓ Recommended tiered packaging with a price based on size of audience
- ✓ Auto-respond had **value that scaled well with the audience size** → build into the **platform tiers** (also, self propagating! Auto-respond boosts audience!)
- ✓ Message draft value didn't scale with the audience size → **monetize through a usage-based add-on** with a small capacity included in the tiers to drive adoption



# Several methodologies can be used to determine price levels for a newly launched capability

## Techniques for Setting Price Levels for New Capabilities:

- ✓ **Cost Estimation** – Should never be the only input, but when costs are high, may define minimums
- ✓ **Benchmarking** - Do competitors / analogues have similar capabilities? How much are they charging?
- ✓ **Value Estimation**
  - How much more valuable does my product become with the new capability?
  - What percent of total value comes from the new capability versus the existing product?
- ✓ **Willingness-to-Pay Research** – How much will customers be willing to pay extra for the new capability? Which customers?

Don't forget to **consider your Business Objectives** when setting price levels!

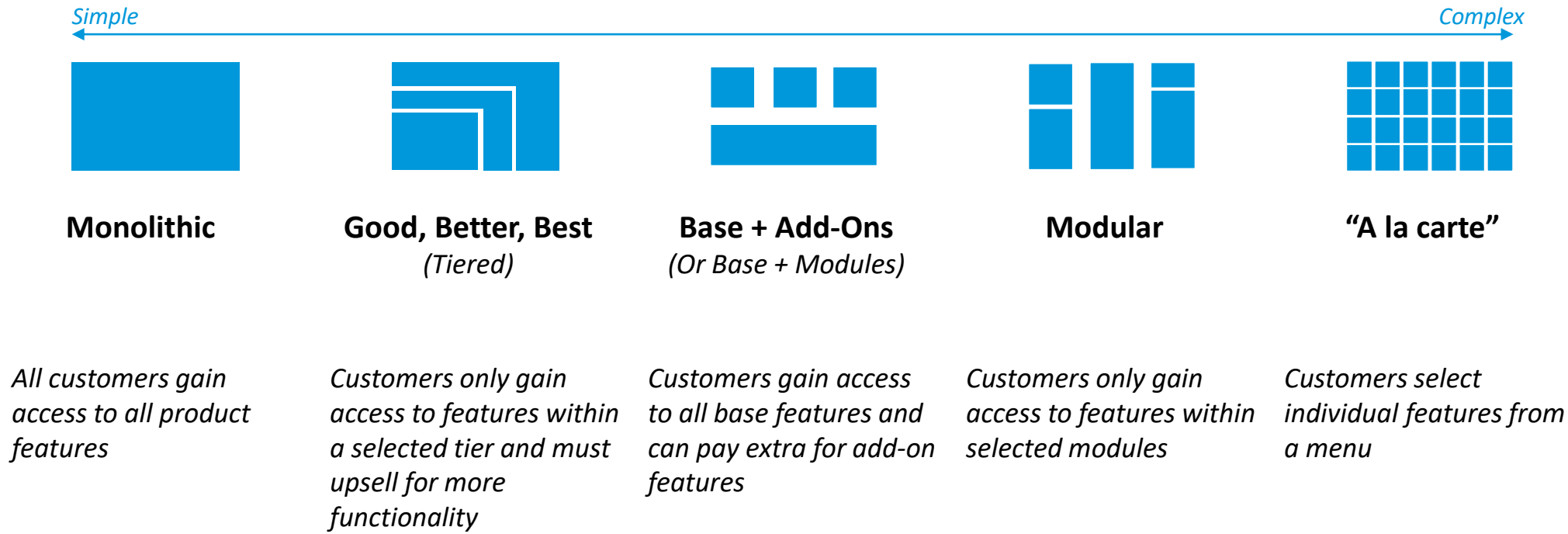
You may lower prices relative to willingness-to-pay or value if:

1. **High adoption** is a key consideration
2. You plan to **monetize the functionality *indirectly*** (e.g. increasing value of primary metric)



# There are a wide range of packaging “motifs” to consider when packaging features of a product

Packaging Motifs (not exhaustive)



If you plan to launch new capabilities, pre-emptively select a motif that makes it easier to integrate new capabilities








## A good packaging structure to monetize future capabilities will be:

- A **Sufficiently Simple** to not be made too complex by the addition of new monetizable packages / adds-ons
- B **Sufficiently Granular** to allow options to monetize new features
- C **Positioned Effectively** as a structure where it is intuitive to “bolt on” new capabilities



# Some packaging motifs are more natural at facilitating expansion of a set of new capabilities

Packaging Motifs (not exhaustive)

	<div>Simple ←————→ Complex</div>				
					
	Monolithic	Good, Better, Best (Tiered)	Base + Add-Ons (Or Base + Modules)	Modular	"A la carte"
Sufficiently Simple	✓	✓	✓	✓	✗
Sufficiently Granular	✗	✗	✓	✓	✓
Positioned Effectively	✗✗	✗	✓✓	✓	✓



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# We have 2 spots left for office hours this Thursday, and our next masterclass topic will be price increases

## Upcoming Events:

Thursday, April 4th: Office Hours

Monday, April 15th: Monetization Masterclass

Next Topic: Price Increases

### Goals of the session:

- Equip participants with **strategies for transparent and fair annual price increases**.
- Provide **insights on how to communicate and implement one-time price adjustments** successfully.
- Foster a **deep understanding of customer segmentation** and tailored price adjustment approaches.



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**Thank you!**

