

# The Ultimate Guide to Software Pricing Strategies

October 31, 2022

APPLIED  
FRAMEWORKS 

# Our Agenda



**01 /** Introduction



**02 /** The Profit Stream Pricing Model



**03 /** 10 Pricing Strategies



**04 /** 3 Strategies to Avoid



**05 /** Q&A



# Welcome



## Jason Tanner











- Former software product manager
- 17+ years of Scrum & Agile
- 9+ years Marine Infantry Officer
- CEO and Certified Scrum Trainer<sup>®</sup> (CST)



***What's the price?***

# The Profit Stream Canvas

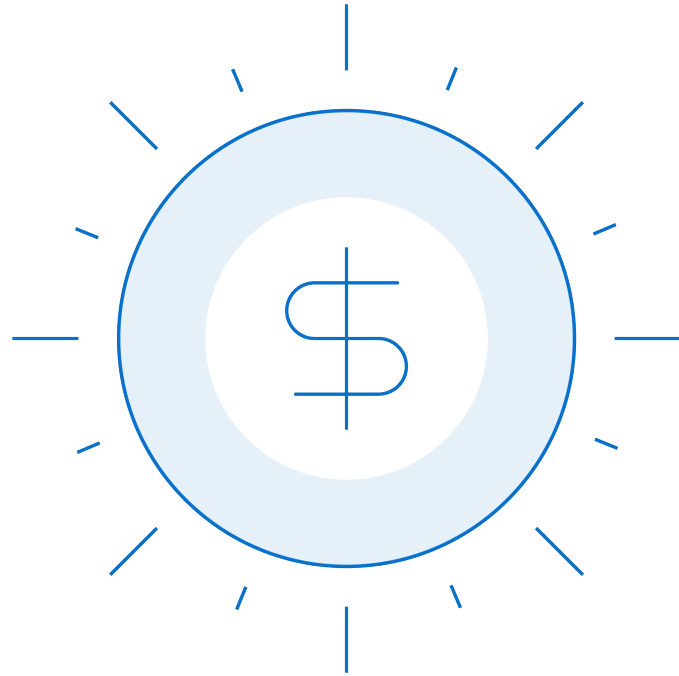
# The Profit Stream™ Canvas

|  |  |   |
|--|--|---|
| <p><b>Customer</b> </p> <p>What does my customer value?<br/>         + Hard / Tangible<br/>         + Soft / Intangible</p> <p>What might my customer pay for this?</p>       | <p><b>Value Exchange</b> </p> <p>How do I "trade value for money"?<br/>         Annual license? transaction?</p>  | <p><b>Solution</b> </p> <p>What are the ways I can provide value to my customers?</p> <p>What are the features / (other) I can provide / create?</p> |
| <p><b>Customer ROI</b> </p> <p>Is this sustainable for my customer?<br/>         + TCO vs. Benefits</p> <p>Is it better than competing or alternative offers?</p>             | <p><b>Pricing</b> </p> <p>How much money will this cost?<br/>         What is the Price?<br/>         + Strategy<br/>         + Structure<br/>         + Specifics<br/>         + Policies</p>  | <p><b>Solution ROI</b> </p> <p>Is this sustainable?<br/>         + Costs<br/>         + Revenue</p> <p>Improvements over time?</p>                   |
| <p><b>Customer Licenses</b> </p> <p>What are the Terms and conditions of the use of the solution?<br/>         + Rights / Restrictions</p> <p>Are they fixed? Negotiated?</p> | <p><b>Profit Engine</b> </p> <p>How do I design/engineer a sustainable business?</p> <p><b>Compliance</b> </p> <p>How do I maintain / honor my relationship with external stakeholders? (societal stakeholders)<br/>         + GDPR, FERPA, HIPAA, COPEA</p> | <p><b>Solution Licenses</b> </p> <p>What are my in-licenses?<br/>         How do I manage them?<br/>         How do they impact my model?</p>        |

# The Profit Stream Pricing Model



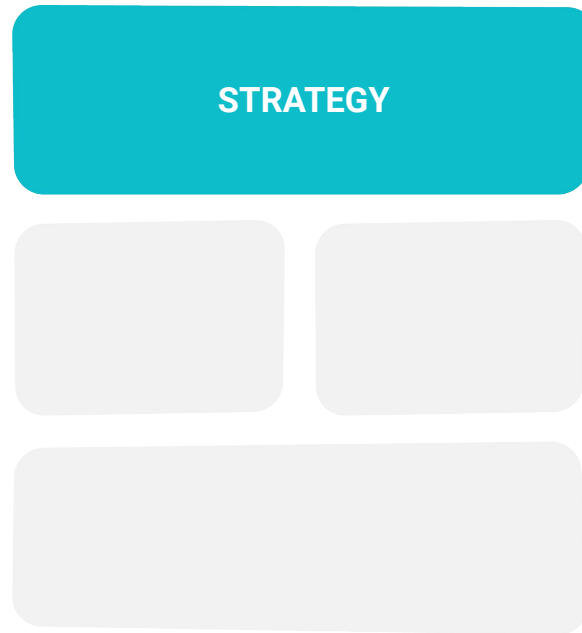
# The Profit Stream Pricing Model



Uses Systems Thinking to identify and manage all aspects of a value-based approach to pricing that **maximizes profit** over time.



# The Profit Stream Pricing Model



**Price Strategy** defines how you intend to compete and position your product

# The Profit Stream Pricing Model



**Price Structure** drives pricing by different segments and solution attributes

**STRATEGY**

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**Price Structure** drives pricing by different segments and solution attributes

**STRATEGY**

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**STRUCTURE**

**SPECIFICS**

**Price Specifics** identify the actual price levels offered to different customer segments including all the details related to the chosen value exchange model.



# The Profit Stream Pricing Model

**Price Structure** drives pricing by different segments and solution attributes

STRATEGY

**Price Strategy** defines how you intent to compete and position your product

**Price Policies** establish the processes and procedures needed to ensure the integrity of the price structure under pressure from customers and competition.

STRUCTURE

SPECIFICS

**Price Specifics** identify the actual price levels offered to different customer segments including all the details related to the chosen value exchange model.

POLICIES



<https://www.menti.com/alinzohptq93>

[www.menti.com](http://www.menti.com)  
Code 1228 9016

# What pricing strategies do you know?

per feature  
usage based  
value-based  
flat fee  
dynamic  
value  
by transaction  
cost plus  
loss leader  
roi  
value based  
by market  
freemium  
per user  
subscription  
penetration  
rear end extraction price  
value based pricing  
value added analysis  
per transaction  
cost savings based  
one time perpetual  
saas recurring



# **10 Pricing Strategies for Software-Enabled Solutions**

# Penetration



## Price low for growth

- Quickly attract many customers to a new product
- Strategy often changed to increase prices as product adoption increases
- Risks
  - Customers may expect continued low prices... forever.
  - Competitors may respond by lowering prices.
  - Price sensitive customers may leave if you attempt to raise prices.



**Accounting Software Built for  
Business Owners and  
Accountants**

**Limited Time Offer**

**Get 60% Off for 4 Months**

**BUY NOW & SAVE**

Excellent  (Based on 3,457 GetApp reviews)



# Premium



## High premium price

- Set a higher price relative to competitors through a combination of positioning, brand, and/or quality
- Superior product performance, great customer service and/or delivery of additional value over time is needed to maintain high prices

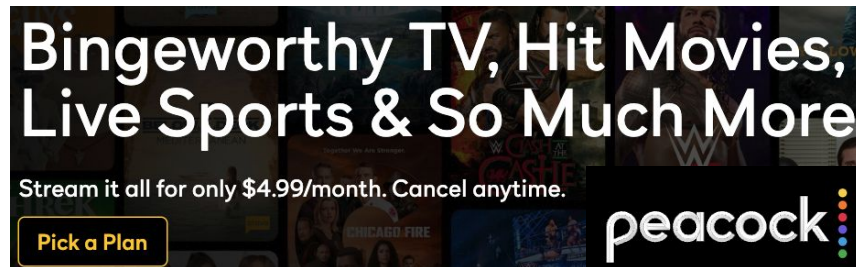
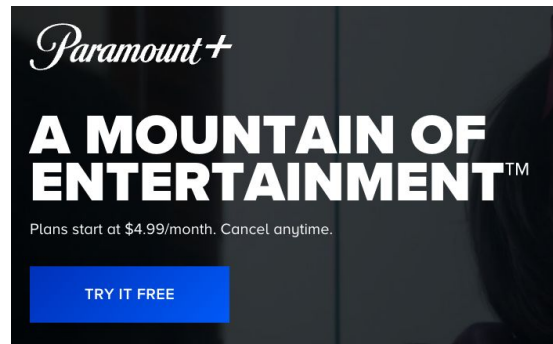


# Competitive



## Follow the market

- Set price based on competitor prices or cost of substitutes
- Price may be set higher or lower than competitors to maximize profitability



# Stable

## Smooth

- Set price to remove variability in use or purchasing
- Benefits customers who experience substantial variation in consumption.
- Expenditures



### Pro

More power for small teams  
who want better collaboration



**\$7.25 USD**

per person/month, when billed yearly  
\$8.75 USD per person/month when billed monthly

#### All the benefits of Free, and:

- ✓ Unlimited message history
- ✓ Unlimited apps and integrations
- ✓ Unlimited lightweight, voice-first huddles
- ✓ Secure work with other companies using Slack Connect channels

# Dynamic



## Demand

- Adjusts prices based on changes in customer demand
- Maximize profit while matching what customers will pay at the moment they are ready to purchase
- Increase price as demand increases



# High-Low



## Discounts

- Designed for products with a limited time of attractiveness
- Price is set high initially when the product is most desired
- Price is lowered, often dramatically, as interest or relevance declines



# Economy



## Budget

- Price lower than the competition to gain volume
- A “no-frills” product that meets the basic needs of the consumer



**DOLLAR SHAVE CLUB**

# Skimming



## Progressive

- Maintain the highest price possible over time
- As competition and other forces drive prices lower, revenue and profit are continuously skimmed
- Prices are carefully and progressively lowered over time as the market matures



# Loss Leader



## Attraction

- Offer one highly discounted product along with other more expensive related products
- Inexpensive product is offered at a loss to generate sales of the more expensive products



Billed monthly  Billed yearly

Popular

| Plan         | Price                     | Storage & Users                                    | Key Features   |
|--------------|---------------------------|--|--|
| Plus         | \$9.99 / month            | 2 TB (2,000 GB) - 1 user                           | Unlimited device linking, 30-day file and account history, Large file delivery with Dropbox Transfer (up to 2GB), 3 free eSignatures per month   |
| Family       | \$16.99 / family / month  | 2 TB (2,000 GB) - Up to 6 users                    | Individual accounts for up to 6 people, Access to Family Room folder for each group sharing and coordination, A single bill for the whole family   |
| Professional | \$16.58 / month           | 3 TB (3,000 GB) - 1 user                           | 180-day file and account recovery, Advanced sharing controls and file locking, Large file delivery with Dropbox Transfer (up to 100GB)   |
| Standard     | \$15 / user / month       | 5 TB (5,000 GB) - 3+ users                         | Easy to use content protection and external sharing controls, Recover files or restore your entire account for up to 180 days, Automatically back up computers - and connected external drives - directly to the cloud |
| Advanced     | \$24 / user / month       | As much space as needed, once purchased - 3+ users | Always-on security monitoring, notifications, and alerts, Data classification for sensitive and confidential information, Large file delivery with Dropbox Transfer (up to 100GB)                                      |
| Enterprise   | Contact sales for pricing | As much space as needed - Customizable             | Enterprise-grade security and visibility tools, Integrations with best-in-class security solutions, Dedicated customer success manager   |

Just need 2GB to store and share your files?  
Sign up for our free plan



# Value-Based



## Customer-focused

- Customer-driven and profit-oriented aligning price to the customer's perception of value derived from the solution
- Allows for pricing higher than competitors who cannot achieve or effectively communicate the value provided



# 10 Pricing Strategies for Software-Enabled Solutions



Penetration



High-Low



Premium



Economy



Competitive



Skimming



Stable



Loss Leader



Dynamic



Value-Based

# Strategies to Avoid



# Customer-Driven Pricing

- Setting price based on basic research of customer willingness to pay
- Insufficient knowledge or experience to evaluate product value
- Downside: Price  $\lt$  than the real value of the product decreases profitability



**PRODUCT MANAGER:**

**"I DON'T GET IT... I DID MY RESEARCH AND THEY TOLD ME WHAT THEY WOULD PAY"**



# Cost-Plus Pricing

- Setting price based on the costs to build, maintain and sell a product plus a desired margin for profit
- Can lead to overpricing or underpricing in markets with strong demand



# Market Share Pricing



- Setting a low price to rapidly gain market share
- Market share can be a distracting vanity metric - Share is relevant *only* as a driver of profitability



PRODUCT MANAGER:

"LET'S GAIN LOTS OF CUSTOMERS. IF WE GENERATE SHARE QUICKLY, WE WIN!"



***What questions can I answer?***

You want to create a sustainable business.  
You know that profit fuels sustainability.  
Software will be the driver of every business model.  
To do this, you will need...

# Software Profit Streams

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# Pricing Structure Webinar 11/29

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**Book Available Q1**