



The Swiss Army™ Knife of Marketing: Demand-Oriented Pricing

1. Introduction

A prominent venture capitalist told me of a time when a Sales VP for one of his interests was proclaiming what a significant ROI he enabled for a recent sale. The VP sold the product for \$200k and was justifiably proud that the customer realized nearly \$10 million in extra business as a result. The venture capitalist was incensed and immediately replaced this VP the next day, sending the message that the VP left way too much money on the table. He should have been setting pricing based on the value the customer receives.

This article describes a simple technique that solidifies customer relationships, enhances competitive analyses, influences development timelines, and aids in organizational analyses and provides key messages for branding, positioning and other marketing efforts. Oh, and it also provides a very accurate price for your products and services—one that maximizes revenue while leaving nothing additional on the table.

2. The Multi-Bladed Marketing Tool

In these tough times, profits are being squeezed from every angle. Companies simply cannot afford to overlook revenue opportunities—they must maximize revenue at every opportunity. The interviews conducted as part of this Demand Oriented Pricing process can uncover many issues perhaps even more important than the pricing itself.

The basic principle behind the Demand Oriented Pricing Model is discovering perceived product value among select prospects and customers in a target market segment and setting prices based on perceived value and competitive comparison. The model can be applied equally well for both products and services and works well in markets where there are reasonably well-known competitive offerings. However, its efficacy is limited when competitive offerings are unknown.

Using this model you can do the following:

- Uncover customers' preferences, highest priorities, and the ROI for each
- Discover competitors' weaknesses
- Predict the most effective marketing messages
- Create a customer-centric product roadmap

2.1. *Uncover Customers' Preferences and Highest Priorities*

Using prospect and customer interviews, you can uncover key areas that the customer values above others, indicating the need to focus greater company resources to satisfy expectations, or ways in which the product offering may have been overdeveloped in areas the customer does not value. For example, customers may value service and support more than installation or even equally as much as features.



This was the case with WordPerfect in the early 90's where companies would purchase WordPerfect over Microsoft Word because of WordPerfect's toll-free technical support that dramatically decreased their total cost of ownership when compared with needing to staff a helpdesk for other solutions.

One company I worked for decided to add a feature their competitor bragged about. When challenged, they responded, "They must have done customer testing so we're going to implement this feature." In actual customer testing, this feature wasn't valued nearly as much as other "peace-of-mind" attributes like ease of installation and robustness.

As-can be seen, precious feedback regarding the company's organizational structure can be gleaned from these customer interactions. If the customer values service and support highly and you already score higher on the product features than on service/support, your resources need to be reallocated to satisfy customer priorities, increase perceived value, and therefore increase the price charged for your product.

2.2. Discover Competitor's Weaknesses

Because customers are rating features and attributes relative to the same features of competitors' products, the customers' view of competitors' products becomes very clear. These interviews provide ample opportunity to probe into areas where competitors score particularly well or poorly.

2.3. Predict the Most Effective Marketing & Sales Messages

The primary objective of all marketing efforts is to generate interest and ultimately stimulate purchase. Key "pain-points" that target customers are going to strongly resonate with will be identified as a result of this exercise. Thus, all marketing efforts to these and similar customers should emphasize areas that prospects rated as very important and areas in which your products scored well.

Similar to the marketing efforts, all sales efforts should be centered on the key issues that customers or others like them valued and how well your overall solution satisfies these criteria. Especially in the case where non-product attributes are important, peripheral differentiators such as service, installation, etc. can be leveraged to create higher perceived value, win the sale, and maximize revenue.

2.4. Develop Product Roadmap Around Actual Customer-Issues, Rather Than on Opinion

By following this methodology you can predict product and non-product functions that if improved, can increase perceived value and therefore price. Thus, this pricing model provides accurate customer-centric insights as to where the overall solution can be improved and can help focus the allocation of resources on those areas that are bound to have the most impact.



I discuss in much greater detail in another article entitled “Why Companies can’t seem to get it Right: Failing to Profitably Predict Customer Needs” the ways in which you can create a truly customer-centric product roadmap that accurately meets customer needs.

3. How Do You Do It?

So how do you use this multi-tool? Read on.

3.1. Customer & Prospect Selection

Because customers and prospects are providing qualitative judgment about your product and comparing how well your product meets their needs, it is important to ensure that you select customers and prospects within a reasonably narrow segment so as to have similar needs and uses for your product. If the segment is too broad, customer valuations will not be consistent or valuable.

One company I worked for had chosen as their segment all sales-assisted B2B companies. We had a very hard time obtaining convergence amongst customer valuations until we split the segments further between those who marketed to large numbers of customers vs. small numbers of customers. As we examined and interviewed these narrower segments we obtained much more rapid consensus due to the fact that the segments now had similar needs and uses for the product in question.

3.2. Interviewing

Once the target customers and prospects have been selected you need to interview them to determine at a high-level their criteria of greatest interest. Issues such as general feature set, product quality, reliability, installation, billing, customer service, etc. may be identified by the customer. By doing so, you may uncover something not relating to the product that customers value and that you can address without sacrificing engineering resources. Sample questions may include “What are the top criteria you use to help you select a product for purchase?” or “What are the criteria you will use to measure the success of this project?”

As a general rule of thumb, the broader and more open-ended interviews should be conducted on-site at the customers’ facility to obtain the richest information. I have conducted interviews over the phone that were more narrowly focused and sought answers to precise questions.

As a side note, customers don’t necessarily need to know that you are interviewing them with the ultimate intent of establishing pricing, as they may be tempted to negatively influence your results.



Product Pricing Matrix						
Attributes	Weight	XYZ Product	Competitor A	Competitor B	Competitor C	Sum
Features	0.4	35	30	20	15	100
Installation	0.1	20	35	25	20	100
Quality	0.2	20	25	30	25	100
Service/Support	0.3	23	25	22	30	100
Perceived Value:	1.0					

Table 1: Relative customer rating of products

3.3. Tracking Interview Results

Customers establish weights or values for each of the most important whole-solution attributes. For example, if during the interviews customers and prospects identify Features, Installation, Product Quality, and Service Quality as the primary measures of value of the product or service you would ask them to weight each attribute on a scale from 0 to 1.0 such that the sum of all weights totals 1.0 as in Table 1 below.

Customers or prospects will then evaluate the company's product along with competitors' products using each of these criteria. For each criteria, the customer or prospect will spread 100 points across your and your competitors' products such that the sum of all ratings for a given attribute is equal to 100 as shown in Table 1.

For future reference, it will be very helpful to probe customers and prospects to be absolutely sure you clearly understand customers' definitions of each of these attributes so you can use them as a guideline for future improvements.

You can score the survey results using the basic equation $V = W \times R$, where V is the perceived product value, W is the weight the customer has assigned to the attribute, and R is the rating out of 100 assigned to each competitor for the given attribute. The scoring is shown in Table 2.

Product Pricing Matrix										
Attributes	Weight	XYZ Product		Competitor A		Competitor B		Competitor C		Sum
Features	0.4	35	14.0	30	12.0	20	8.0	15	6.0	100
Installation	0.1	20	2.0	35	3.5	25	2.5	20	2.0	100
Quality	0.2	20	4.0	25	5.0	30	6.0	25	5.0	100
Service/Support	0.3	23	6.9	25	7.5	22	6.6	30	9.0	100
Perceived Value:	1.0		26.9		28.0		23.1		22.0	100

Table 2: Scoring of customer input



3.4. Establishing Pricing

Establishing pricing is simple at this point. You should use Competitor A with the **closest score** as the primary reference for establishing the price of your product. The price is calculated using the following formula:

$$\text{Company Price} = \left(\frac{\text{Your Perceived Value}}{\text{Competitor's Perceived Value}} \right) \times \text{Competitor Price}$$

3.5. Making Sense of it All

There is a wealth of additional information contained in the matrix that if understood, will help increase the perceived value of the product and therefore the premium price that can be charged.

The customer values Features, Service/Support, Product Quality, and Ease of Installation in the same decreasing order. Thus, you might expect to focus company resources on these areas in the same order. If you did so you would waste your resources without any ability to increase perceived value.

In this example your product scores the highest on features, indicating that the overall perceived value is not likely to change through an increased number of features. The lowest mark is for Ease of Installation, but the customer has indicated that this is not an high priority with a weight of 0.1.

Service/Support ranked third out of four with a score of 6.9, yet customers valued this attribute nearly as high as Product Features. This attribute provides the most fertile ground for improving the perceived value and subsequent price. If you were to raise this to match the best of breed shown by Competitor C you may realize greater than 8% increase in price.

Focusing on areas where customer value is high and customer ratings are lowest can increase perceived value, price, and ultimately increase revenue.

4. Conclusion

For a boring methodology for establishing prices for your products or services, Demand-Oriented Pricing can only be described as the Swiss Army™ Knife of marketing. In the process of establishing accurate pricing to maximize revenue and ensure nothing is left on the table, there are a number of extraordinary insights to be uncovered during the process.

All of these insights help establish and solidify customer relationships, influence development timelines, aid in organizational analyses and resource allocation, and identify key marketing messages known to hit customers' hot buttons. With all of these supplies in your toolkit, how can you help but be successful in bringing in increased revenue?