Blackblot® PMTK

MVP Pricing Model

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Document Revision History:

Date	Revision	Revised By	Approved By
<Enter revision date>	<Revision #>	<Enter your name>	<Enter name>

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1. Introduction

1.1. Document Objective

The purpose of this document is to provide a pricing model for the <Enter product name>.

<Comment: The "Market-Value Pricing (MVP) Pricing Model Template" is designed to be used in conjunction with the "MVP Pricing Model Spreadsheet" and the "PMTK MVP Model Flowchart". Price is the specification of what a seller wants in exchange for granting the right of ownership or use of a product. Pricing is the act of setting a price. Knowledge prerequisites to building a pricing model are:

- *Body of Knowledge – Customers, competitors, complementary.*
- *Knowledge of Costs – Cost of goods, cost of selling, and overhead cost (fixed or variable).*

The "PMTK MVP Model" is comprised of three distinct parts that effectively act as sequential stages in the pricing process (see the "PMTK MVP Model Flowchart"):

- *Pricing Scheme – Outline of the overall pricing approach that encompasses the principles for pricing the specific product (how to achieve).*
- *Pricing Formula – Calculatory structure that allows the application of pricing changes to specific markets or competitive regions (how to calculate).*
- *Price Mix – Price-related aggregate of information and conditions that the customer is presented with (how to present).*

This template implements the "PMTK MVP Pricing Process". The steps in this process are as follows:

1. *Secure knowledge prerequisites.*
2. *Determine pricing objectives.*
3. *Select pricing strategy.*
4. *Choose life cycle stage pricing tactics.*
5. *Devise a pricing formula.*
6. *Assemble a price mix.>*

1.2. Product

<Define and describe the product for which the pricing model is being developed.>

<Comment: Remember that the price a customer will ultimately pay should reflect the value and functionality that were given to the customer and not the resources invested in the product.>

2. Pricing Scheme

2.1. Section Objective

This section aims to determine the pricing scheme, which is an outline of the overall pricing approach.

<Comment: The pricing scheme encompasses the principles for pricing the specific product. The pricing scheme is comprised of three distinct components that effectively act as sequential stages in the pricing process:

- *Objectives – Description of what a company wants to achieve through pricing its products.*
- *Strategies – Primary method to pricing that relies on a particular pricing decision factor.*
- *Tactics – Pricing actions that are dependent on the particular life cycle stage of the product that is being priced.>*

2.2. Pricing Objectives

<Describe the pricing model's objectives. Explain why the particular objective or objectives are sought.>

<Comment: "Pricing Objectives" describe what a company wants to achieve through the pricing of its products. Common pricing model objectives are:

- *Profit (Income) – Most financial gain.*
- *Units (Share) – Biggest market share.*
- *Revenue (Sales) – Largest volume of sales.*
- *Signal (Marketing) – Indication to market or industry.>*

2.3. Pricing Strategies

<Describe the strategy that will be used in the pricing model. Explain why the particular strategy was selected.>

<Comment: Common pricing model strategies are:

- *"Cost-Plus" (Margin) – Uses costs as the primary pricing decision factor.*
- *"Going-Rate" (Competition) – Uses competitors' prices as the primary pricing decision factor.*
- *"Market-Will-Bear" (Monopoly) – Uses unfair competitive advantages and market dependencies as the primary pricing decision factor.*
- *"Market-Value" (Value) – Relies on customers' relative importance and paying propensity as the primary pricing decision factor.>*

2.3.1. Base Price

<Determine the "Base Price" that is recommended for this product.>

<Comment: "Base Price" is the initial price of a product before any alteration. This section is conditional on selecting the "Cost-Plus" or "Going-Rate" or "Market-Will-Bear" pricing model strategy. Delete this section if not applicable.>

2.3.2. Market-Value Price (Base Price)

<Determine the "Market-Value Price" that is recommended for this product. The "Market-Value Price" will serve as the "Base Price".>

<Comment: "Base Price" is the initial price of a product before any alteration. This section is conditional on selecting the "Market-Value" pricing model strategy. Delete this section if not applicable.

Methods for performing "Market-Value Pricing" include:

- *"Inferred Price" (Implicit) – Asking customers, "How important to you is this product relative to [other* *products]?" and the price is concluded based on their answers.*

- *"Declared Price" (Explicit) – Asking customers, "How much are you willing to pay for this product?" and they explicitly declare the price.*
- *"Derived Price" (Determined) – Price is determined based on attributed benefit. Determination of the "Derived Price" is performed using the "MVP Pricing Mode" Spreadsheet".>*

2.4. Pricing Tactics

<Determine and note the present life cycle stage the product is conceivably at.

- Describe the tactic or tactics that will be used in the pricing model, at the current life cycle stage and possibly at later life cycle stages.
- Explain why the particular tactic or tactics were selected.
- When relevant, determine the alteration applied to the base price based on the chosen tactic.>

<Comment: Pricing model tactics are pricing actions that are dependent on the particular life cycle stage of the product that is being priced, according to the "Product Life Cycle Model" (PLC Model). For additional information about the PLC Model, see the "Extending Product Life Cycle Stages" book chapter, which can be found in "The Product Manager's Toolkit: Methodologies, Processes and Tasks in Technology Product Management" second edition book (ISBN: 978-3-319-49997-0). Common pricing model tactics are:

Introduction PLC Model Stage

- *Skimming (High Price) – Briefly setting a high price for a new product to gain maximum revenues from segments willing to pay the high price.*
- *Penetration (Low Price) – Briefly setting a low price for a new product to attract many buyers and a large market share.*

Growth PLC Model Stage

- *Diversification (Product Family) – Create product variants with new price points.*
- *Captive Product – Offer an imbalanced price ratio of a product's components which are sold separately.*
- *Discrimination – Charge different market segments different prices for the same product.*

Maturity and Decline PLC Model Stages

- *Initiatives:*
  - *Reductions – Universal, non-discriminatory and non-conditional official list price decreases.*
  - *Bundling – Price of a set of products is lower than the sum total of the individual products purchased separately.*
- *Reactions:*
  - *Anything …>*

3. Pricing Formula

3.1. Section Objective

This section aims to determine the elements of a pricing formula used to calculate the price. The pricing formula allows applying pricing changes to specific markets or competitive regions.

<Comment: The pricing formula is comprised of three distinct sections:

- *Variables – Price changes based on product characteristics.*
- *Discounts – Deductions from the list price.*
- *Licensing – Variations in rights to usage and ownership.>*

3.2. Pricing Variables

<Describe the pricing variables that will be used in the pricing model. Select the variables relevant to your market and product. Pricing variables are not applicable to all products.>

<Comment: Pricing variables allow the application of pricing changes to specific markets or competitive regions. Pricing variables are usually product characteristics on which different price adjustments can be made. Pricing variables can also be viewed as being deliverable-based or quantum-based. The following are commonly used pricing variables:

General Pricing Variables

- *Scale – Number of users.*
- *Schedule – Pace at which the project is to be completed.*
- *Implementation Challenges – Any unique implementation issues.*
- *Transactions – Number of transactions (commerce applications).*

Technological Pricing Variables

- *Security Issues – Companies have different levels of security needs and different preferences where security is the issue.*
- *Remote Management – Charges can be presented if a company demands additional or complex management layers.*
- *Reserved Capacity – Some clients will need guaranteed service levels in terms of performance or response times. The charge for this service is usually fixed and dependent on service level.>*

3.3. Discounts

<Describe the pricing discounts that will be used in the pricing model.>

<Comment: Pricing discounts are commonly applied in the following ways:

- *Modifiers – Conditional deduction from the list price.*
  - *Cash – Immediate payment (via banknotes or check).*
  - *Volume – Large quantity purchase.*
  - *Time Frame – Purchase made within prescribed periods.*
- *Allowances – Conditional refund only in the form of a deduction from the list price in exchange for customer action.*
  - *Trade-in – Item of property given in part payment upon purchase.*
    - *Upgrade – Form of trade-in that grants a reduced price of new product releases for current customers to maintain customer loyalty.*
    - *Competitive Upgrade – Form of trade-in that grants a reduced price of a new product for relinquishing the license or ownership to a competing product.*

- o *Rebate – Reimbursement for a portion of the purchase price in exchange for customer information.*
- *Global – Universal, non-discriminatory, non-conditional deduction from the list price for enticement purposes.>*

3.4. Licensing

<Describe the licensing scheme that will be used in the pricing model.>

<Comment: Licensing is commonly applied in the following ways:

- *Perpetual License – Non-expiring ownership and usage rights to a product.*
- *Conditional License – Expiring ownership and usage rights to a product (renewable and non-renewable). Also known as "Term License".*
- *Licensing Mix – Combination of perpetual and term licenses relative to a particular product.*

A "Perpetual License" is often based on a one-time fee. A "Term License" is often based on recurring fees. Licensing fees may be applied singly or in combination, and can complement or substitute a base price. Licensing fees commonly include the following options:

- *One-time Fee – One-time fixed charge that enables constant use of the product. Often applied to a tangible product.*
- *Subscription Fee – One-time fixed charge that enables limited-time use of the product. Often applied to an intangible product (service).*
- *Recurring Fee – Fixed charge that enables limited time use of the product, but is renewed periodically at regular intervals.*
- *Usage Fee – Charge per unit of measure tallied at regular intervals.>*

4. Price Mix

4.1. Section Objective

This section aims to determine the price mix presented to the customer.

4.2. Price Mix

<Describe the price mix that will be used in the pricing model.>

<Comment: The "Price Mix" is comprised of the following elements:

- *MSRP – Manufacturer's Suggested Retail Price.*
- *Adjusters – Variations to the MSRP.*
  - o *Variables – Price changes based on product characteristics.*
  - o *Discounts – Deductions from the list price.*
  - o *Tax – Levies imposed by law.*
  - o *Shipping – Product transporting charges.*
- *Monetary – Payment terms and conditions.*
  - o *Payment Forms – Means of payment such as cash, credit card, check, and wire transfer.*
  - o *Payment Terms – Payment conditions such as currency type, letter of credit, and purchase prerequisites.*
  - o *Credit Terms – Schedule for delayed payment(s).*
- *Contract – Granted rights to usage, ownership, and benefits.*

- *End-User License Agreement (EULA) – Perimeters of usage and ownerships rights granted to the customer.*
- *Terms and Conditions – Setting of requirements and obligations for the parties.*
- *Disclaimer – Denial of responsibility to events to discourage legal action.>*

5. <Product Name> Pricing Model

5.1. Section Objective

The purpose of this section is to describe the pricing model structure that will be applied to <Enter product name>.

5.2. <Product Name> Pricing Model

<Describe the entire actual pricing model that will be applied to the product. This is, in effect, a summary and concise aggregate of the preceding sections.>

<Comment: This pricing model should be described in an actionable and realistic way so that it may be implemented.>

5.3. Pricing Model Clarity

<Define and list principles used to promote clarity within the pricing model.>

<Comment: Customers always expect to be presented with an easy-to-understand price model. Intricate price models may serve the vendor well as they cover many revenue options, but tend to create disengagement at the customer's end.>

6. Market/Customer Data

6.1. Section Objective

This section aims to describe the market, competition, and customer data used in support of creating the pricing model.

6.2. Market/Customer Data

<Describe and list market and customer data that were used. When relevant, detail how the data directly support the decision made regarding the pricing model.>

6.3. Competitor's Pricing

<Describe and list any relevant pricing information (pricing, rates, models, mix) used by the competition.>

7. Pricing Model Assumptions

7.1. Section Objective

Describe assumptions made in support of creating the pricing model.

7.2. Pricing Model Assumptions

<Describe and list any assumptions whatsoever made in support of creating the pricing model.>

8. Supporting Data

8.1. Section Objective

This section provides data supporting claims, assertions, assumptions, and statements made throughout this document.

8.2. Assumptions

<Describe any assumptions made while preparing this document.>

8.3. Research Information

<If relevant, describe and list the type and scope of research conducted while preparing this document.>

8.4. Product Diagram/Architecture

<If relevant, describe the product's architecture and modules accompanied by a schematic diagram.>