What's in a Price?

How to price your products and services
My name is Michael Herold.

Please tweet me @mherold or say hello@michaeljherold.com.
We help creatives do their best work.
We are hiring.
Questions?

Tweet @mherold during the talk.
We were launching a new product ...
and planning to price it at $99/month.
I asked, "How did we decide on that price?"
Can you guess what the answer was?
What is missing from this picture?
What if you...
What if you have a side gig?
What if you are a solopreneur?
Pricing your first product is
Pricing your first product is scary.
Pricing your first product is hard.
Pricing your first product is full of angst.
It doesn't have to be.
How can we make it easier?
How can we go from
How can we go from 😱
How can we go from 😨 to
How can we go from 😰 to 😊
What's in a price?
What does this graph mean for us?
Supply is largely controlled by us.
Demand is largely from the customer.
We need to figure out demand to understand how to price.
It's time for an abstraction.
Economics is applied in many disciplines.
Economics is applied in finance.
Economics is applied in accounting.
Economics is applied in political science.
Economics is applied in neuroscience.
Economics is applied in market research.
Market research uses economic principles to build models for understanding customers.
Van Westendorp's
Price Sensitivity Meter
The price sensitivity meter is
The price sensitivity meter is easy to use.
The price sensitivity meter is easy to understand.
The price sensitivity meter is lightweight.
The price sensitivity meter is based on surveys.
1. Decide on your pricing scale.
Aim for 25-40 steps.
Capture both impossibly high and impossibly low.
### Pricing a granola bar

<table>
<thead>
<tr>
<th>Step</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$0.50</td>
</tr>
<tr>
<td>2</td>
<td>$1.00</td>
</tr>
<tr>
<td>3</td>
<td>$1.50</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>20</td>
<td>$10.00</td>
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2. Survey your audience.
Start with a detailed explanation of the product or service.
Start with a demonstration of the product or service.
Four questions
At what price do you begin to think the product is so inexpensive that you would question its quality?
At what price do you begin to think the product is a great deal for the money?
At what price do you begin to think the product is getting expensive, but you still might consider it?
At what price do you begin to think the product is too expensive to even consider?
1. Too cheap
1. Too cheap
2. Cheap
1. Too cheap
2. Cheap
3. Expensive
1. Too cheap
2. Cheap
3. Expensive
4. Too expensive
Ask the questions in both increasing and decreasing order.
1. Too expensive
1. Too expensive
2. Expensive
1. Too expensive
2. Expensive
3. Cheap
1. Too expensive
2. Expensive
3. Cheap
4. Too cheap
If you get impossible answers, correct them.
Now it's time for some
Now it's time for some statistics.
Cumulative distribution functions (CDFs)
\[ F_X(x) = P(X \leq x) \]
A function where the right-hand side is equal to the probability that a random variable is less than or equal to x.
A function where the right-hand side is equal to the probability that a random variable is less than or equal to \( x \).
<table>
<thead>
<tr>
<th>Respondent</th>
<th>Cheap</th>
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<tr>
<td>1</td>
<td>$1.22</td>
</tr>
<tr>
<td>2</td>
<td>$9.99</td>
</tr>
<tr>
<td>3</td>
<td>$4.88</td>
</tr>
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<td>...</td>
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cheap = [1.22, 9.99, 4.88, ...]
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<tr>
<td>Step</td>
<td>x</td>
</tr>
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<td>------</td>
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def cdf(x, observations:)
    count = observations.select { |obs| obs <= x }.count

    count / observations.count.to_f
end

scale.map { |x| cdf(x, observations: cheap) }
YAY STATISTICS
Start graphing your CDFs.
First, graph expensive and cheap.
Look for the intersection.
Indifference price
Indifference price may be the median price in the market.
Indifference price may be the price of an important market leader.
Indifference price indicates price-consciousness.
Look for psychological thresholds.
Next, graph too expensive and too cheap.
Look for the intersection.
Optimal pricing point
Optimal pricing point indicates minimum resistance to change.
Look for psychological thresholds.
Graph **all four curves** together.
Create not expensive and not cheap by inverting their counterparts.
Not Expensive and Not Cheap
Then combine them with too expensive and too cheap.
These intersections are your points of marginal cheapness and marginal expensiveness.
These two points form the range of acceptable prices.
Graph all curves together.
Potential median price for the market
Price Sensitivity

Potential median price for the market

Minimum resistance to change
Make your decision!
Are prices inherently adversarial?
Pricing doesn't have to be about extracting maximum value out of your customers.
Often, it works out better if you price for some consumer surplus.
Customers can be your greatest champions.
Define your scale before you survey.
When possible, segment your participants into logical groups.
Further segment your participants and reverse the order of the questions.
Make sure you are very clear with your description.
Make sure you are very clear with your description.
Conduct your first surveys with a mock up.
One simple model.
A discipline outside our own.
Liberate the best ideas.
Use them for intentional design.
Help your customers be awesome.
Consider thinking of your customers as partners instead of customers.
My name is Michael Herold.
Please tweet me @mherold or say hello@michaeljherold.com.
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