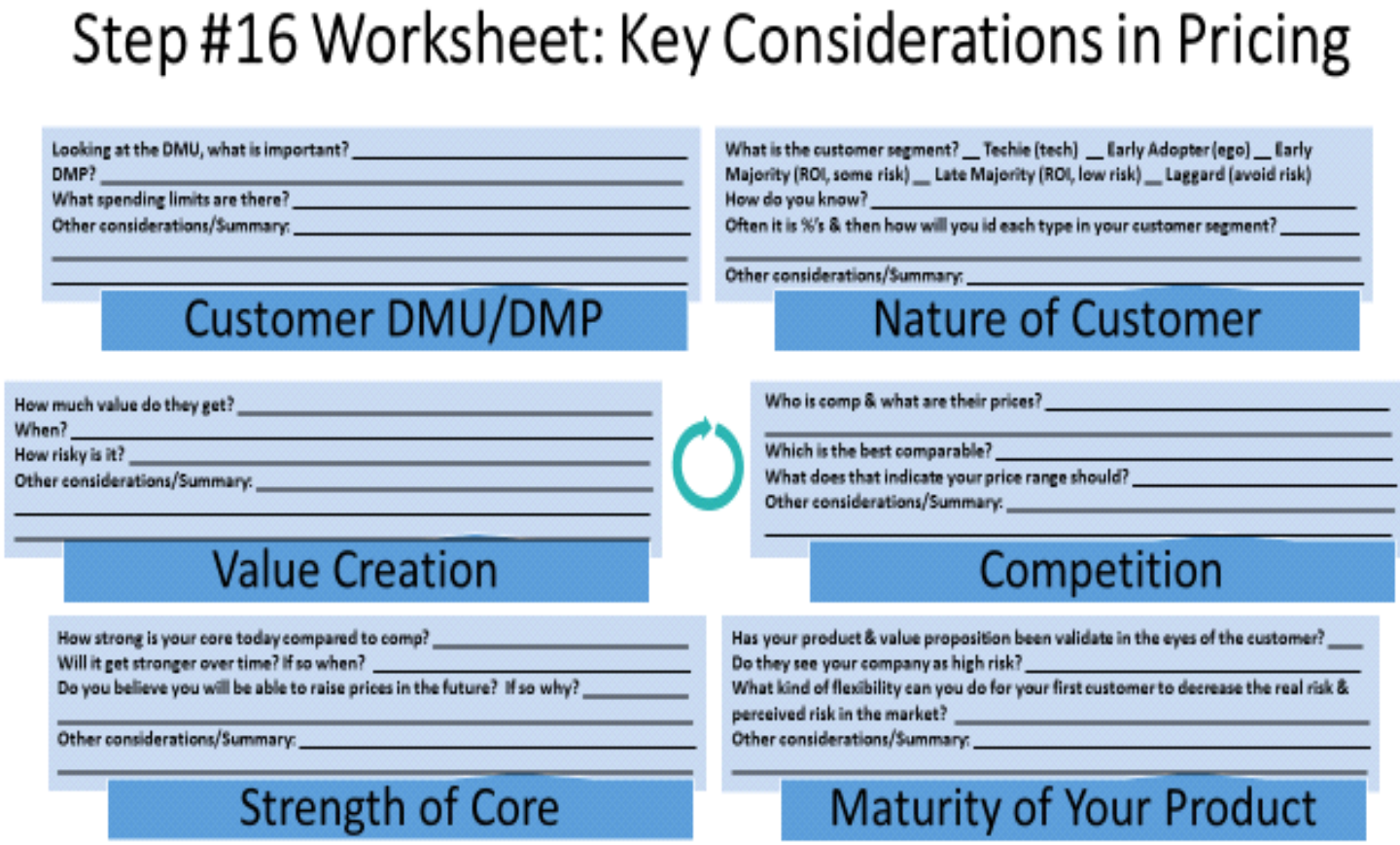
Disciplined Entrepreneurship Workbook

Step 16: Set Your Pricing Framework

Worksheet



- **Initial Decision and Rationale**
    - What unit of product are you using for pricing (carried forward from Step 15, Design a Business Model)?

    Greenify will use a subscription-based pricing model for its AI-driven energy management system. This model supports continuous customer engagement through regular updates and dedicated support, essential for a tech-driven product that evolves based on user feedback and advancements in AI technology. The subscription model ensures a predictable revenue

stream while enhancing customer loyalty by consistently adding value over the product's lifecycle.

- Based on your analysis, what is the price range that is most appropriate and why?

Greenify's product is priced at €280 per unit, a rate determined by considering the high value of its AI functionalities which include predictive analytics and smart home integration. The price reflects the balance between cost coverage, including production and operational expenses, and market competitiveness against similar products like the Nest Thermostat or Ecobee. Additionally, the annualized revenue per unit is set between €40 to €70, accounting for both one-time sales and recurring subscription income.

- In the first year, what do you believe your initial listed price will be, and what will be the effective price to the market and why? (The "effective price" is the actual price your customer pays after discounts.)

The initial listed price of €280 is strategically set to attract early adopters, with effective prices potentially lowered through introductory discounts aimed at accelerating market entry and adoption rates. For example, Greenify will offer a 10% discount during the launch month to boost initial sales and quickly build a customer base, effectively reducing the consumer cost to €252 during the promotional period.

- Sanity Check: What is your expected estimated marginal cost (cost to produce a unit of product, excluding one-time setup costs)? Does your price per unit significantly exceed your estimated marginal cost in the long term?

The pricing strategy ensures that the sale price significantly exceeds the estimated marginal production cost, maintaining profitability and covering additional expenses such as R&D, marketing, and customer service. This margin is crucial for funding continuous improvements and innovation within the product range, ensuring Greenify remains competitive and can sustain its market position in the long term.

- **Test to Validate**
- In setting your pricing framework, what hypotheses are you assuming to be true?

Greenify is assuming that customers will perceive the value of the AI-driven energy management system to justify the cost of the subscription, leading to high acquisition and retention rates. Specifically, the hypotheses posit:

a. A basic subscription at a lower price point will attract more first-time users but may have lower long-term retention.

b. A premium subscription offering bundled services at a higher price will attract fewer initial subscribers but achieve higher retention due to perceived value.

For example, Greenify will offer a basic subscription for €200/year that includes essential features and a premium subscription for €300/year that includes additional services like real-time energy consumption analysis and priority customer support.

- What experiments will your run to test your hypotheses?

Greenify will conduct A/B testing where:

a. Group A receives the basic subscription offer.

b. Group B receives the premium subscription offer.

The performance of each group will be monitored over the test period, assessing both initial uptake and retention after several billing cycles. Additionally, promotional offers such as a first month free or a discount on the annual payment might be used to observe the elasticity of demand for each subscription type.

- What information will show that your hypotheses are valid or invalid?

To determine if the hypotheses hold true, Greenify will monitor:

a. Subscription Rates: The number of new sign-ups for each group during the testing period.

b. Customer Feedback: Direct feedback and satisfaction ratings collected via surveys focusing on pricing satisfaction.

c. Retention Metrics: Percentage of users who renew their subscriptions after the initial period.

For example, if the premium subscription shows a 40% higher retention rate than the basic subscription despite a lower initial signup rate, it could validate the hypothesis that customers are willing to pay more for added value.

- How long will you give the experiments to run?

The testing period is set for a minimum of three months. This duration allows enough time to track initial reactions to the pricing strategy and observe retention trends after the first few billing cycles. This period is important to gather data across a representative sample of billing events and seasonal variations in energy usage, which may impact customer perception of value.