PRICING AND FINANCIAL MODELING

Andy Acs

PDM 8

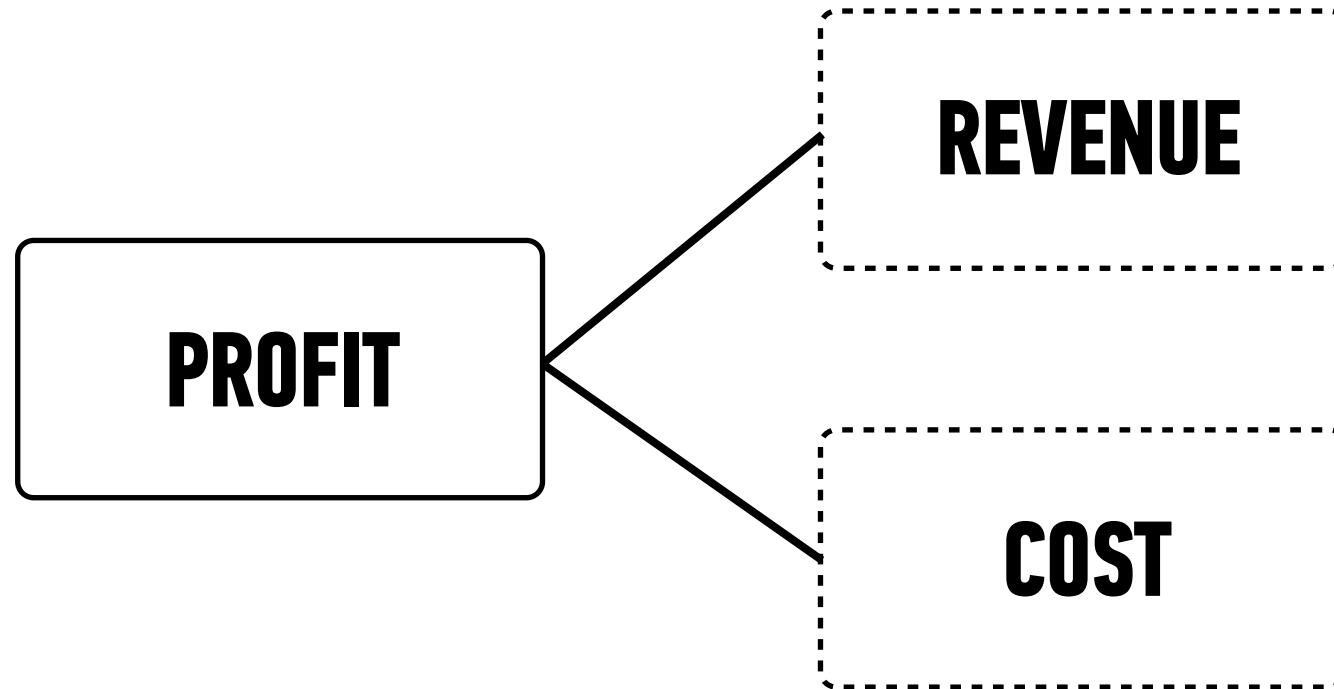# PRICING AND FINANCIAL MODELING

LEARNING OBJECTIVES

‣ Build a working financial model for a given audience.

‣ Describe different pricing approaches for a new product.

‣ Forecast demand and revenue for a new product.

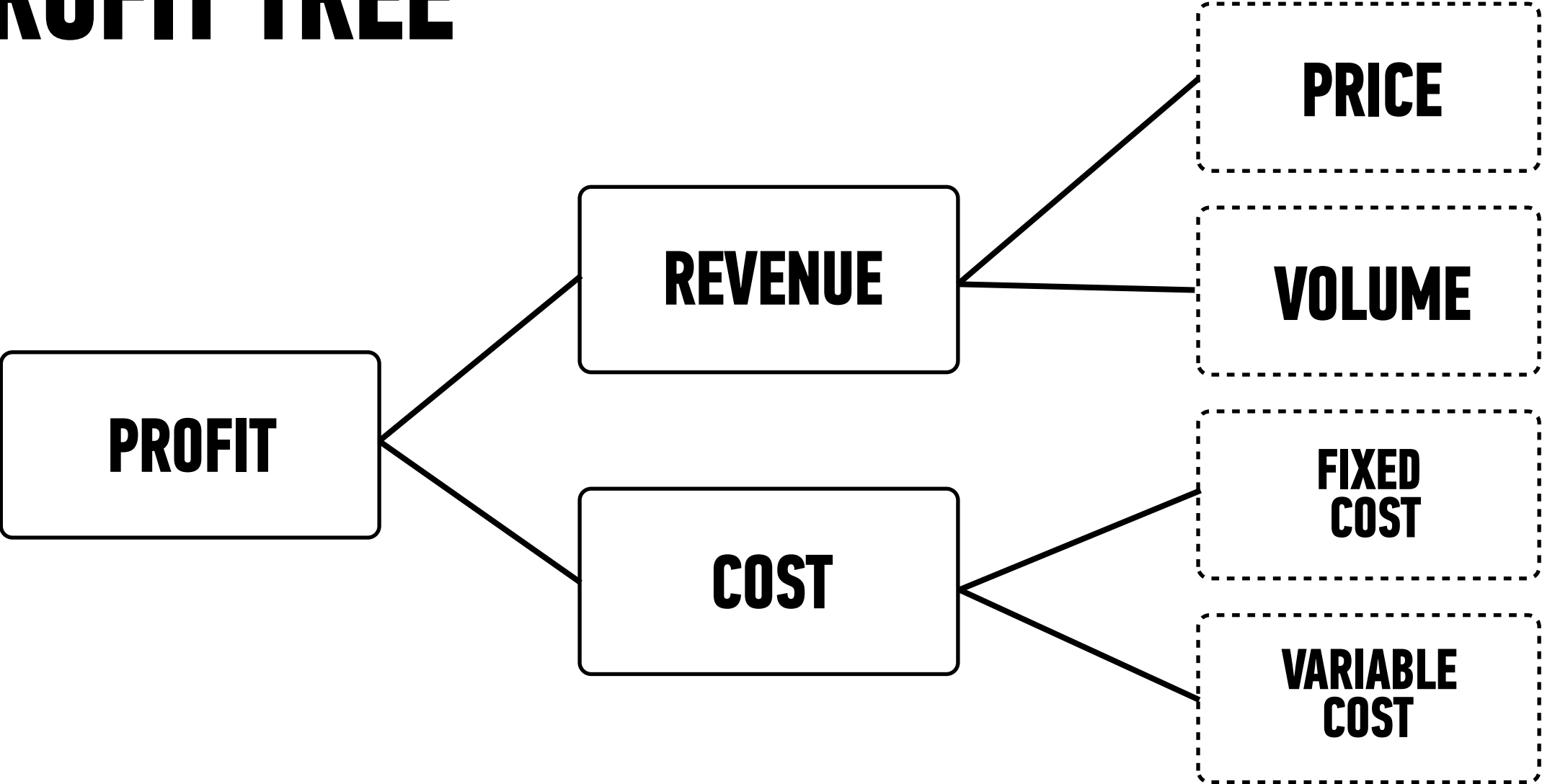# WHY IS FINANCIAL MODELING IMPORTANT FOR PRODUCT MANAGERS?

FINANCE BASICS
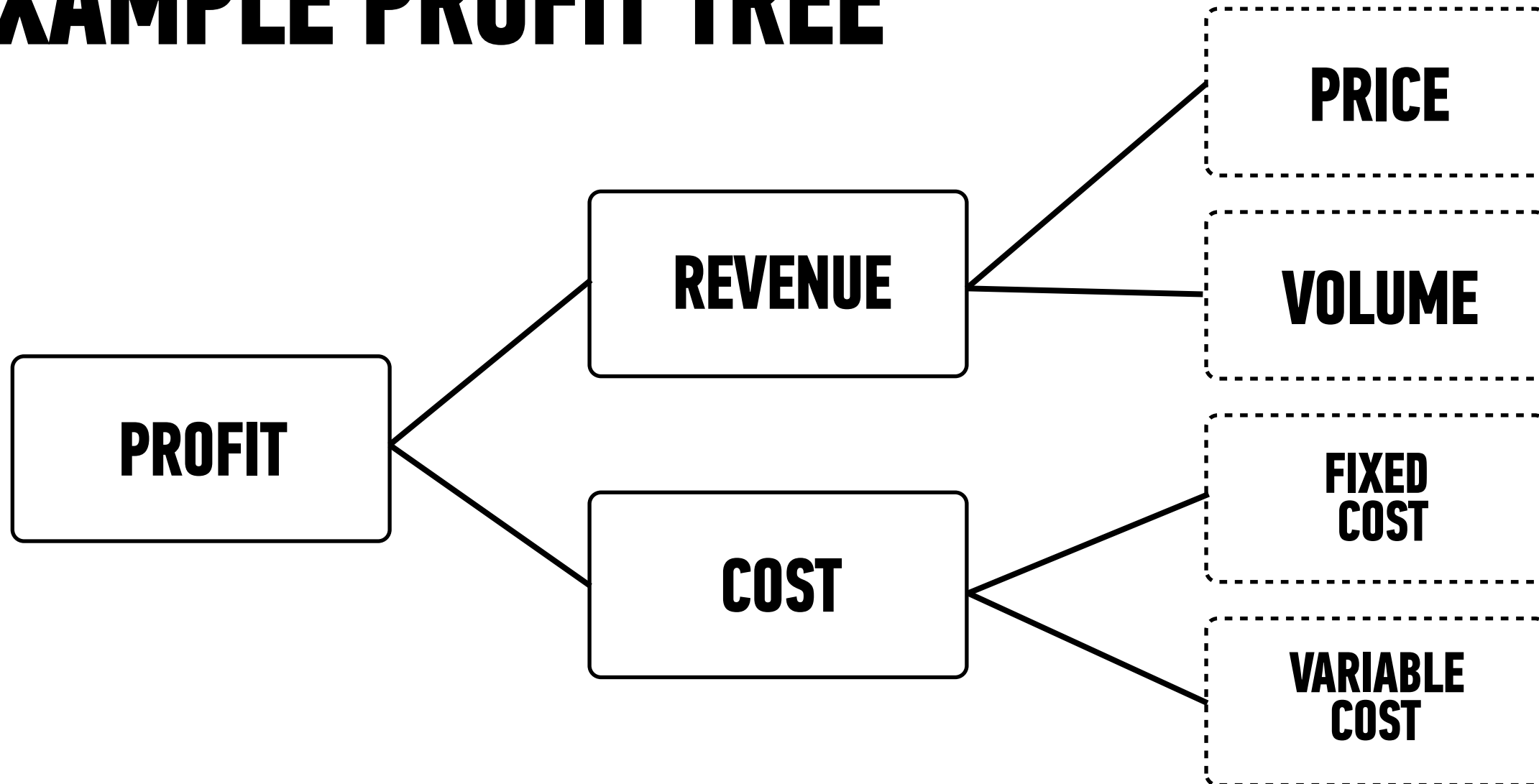
PROFIT TREE

PROFIT TREE

UNIT PRICE

$$\frac{\left(\boxed{\text{VARIABLE COST}} + \boxed{\text{FIXED COST}} \right)}{\boxed{\text{VOLUME}}}$$

EXAMPLE PROFIT TREE

PRICING

HOW WOULD YOU PRICE THIS PRODUCT?

3D PRINTER

HOW WOULD YOU PRICE A PRODUCT?

COST-PLUS PRICING

VALUE BASED PRICING

COMPETITIVE PRICING

PRICING FOR INNOVATIVE PRODUCTS

THINGS TO CONSIDER WHEN PRICING

COST OF COMPETITORS

LEVEL OF SERVICE

EXCLUSIVITY OF PRODUCT

DEMOGRAPHICS OF TARGET USERS

WHAT FACTORS DETERMINE THE PRICING OF THESE TWO ONLINE STORES?

GILT

ideeli

COMMON PRICING MODELS CONSUMER

One time fee

Subscription Model

Subscription + Activation

COMMON PRICING MODELS B2B

Per Seat

Yearly License

COMMON PRICING MODELS ECOMMERCE

Revenue Share

Profit = Price - COGS

ACTIVITY: PRICING

EXERCISE

KEY OBJECTIVE(S)

Think through potential pricing strategies for your product

TIMING

15 min — Come up with 2-3 different pricing options for your product and your rationale.

10 min — Share with a partner and compare.

DELIVERABLE

A pricing strategy for project ideas with a justification.

FORECASTING

HOW WOULD YOU FORECAST REVENUE IMPACT FOR A NEW FEATURE?

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FIND AN ANALOG (INTERNAL OR EXTERNAL)

ESTIMATE EYEBALLS

COVER ALL POTENTIAL IMPACTS (GOOD AND BAD)

WHY SHOULD MODEL DIFFERENT SCENARIOS?

BEST CASE SCENARIO

EXPECTED SCENARIO

WORST CASE SCENARIO

DEMAND FORECASTING

EXTENDED PREVIEWS FEATURE FROM audible.com

Variable	Impact	Notes
Addressable Audience	90% of Monthly Visits	Accessible from homepage, product detail page, search results, category page
Take Rate	10%	Current small samples have a 3% take rate
Purchase Less	- 5%	Slight drop in impulse purchases
Purchase More	10%	Kindle saw XX% more than this; conservative estimate
Less Returns	10%	XX number of audiobooks returned each month
Conversion to Membership	10%	Try-before-you-buy and habituation opportunity – Lift estimated from survey data; will re-forecast after M1.
Churn	-10%	Lift estimated from survey data; will re-forecast after M3.
Product Adoption Rate	5 months to get to full effect	M1 – 40%; M2 – 60%; M3 – 80%; M4-90%; M5-100%

HOW WOULD YOU FORECAST DEMAND FOR A NEW PRODUCT?
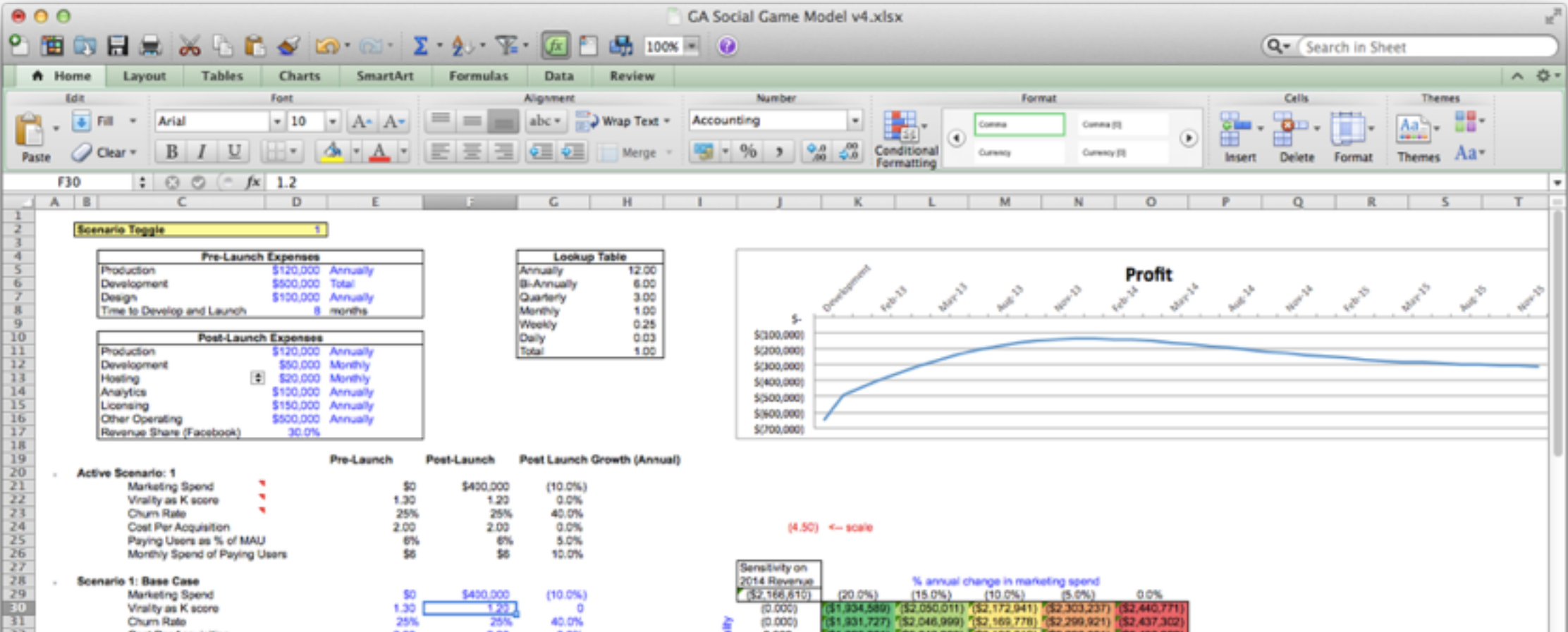
HOW WOULD YOU FORECAST DEMAND FOR A NEW PRODUCT?

MARKET RESEARCH & SIZING

MARKET GROWTH

FINDING PROXIES (WHAT'S A SUITABLE ALTERNATIVE?)

BUILDING AN EXCEL MODEL
WHOLE CLASS ACTIVITY

PRICING AND FINANCIAL MODELING

Q&A