



Science vs. Art  
**In Pricing  
and Revenue**

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# Table of contents

**01**

## **Introduction to Levers**

The seven key variables in your revenue plan.

**02**

## **The Art of Lever Pulling**

Each combination affects your plan differently.

**03**


## **The Science of Pricing**

Tried and true methods for pricing your product.

**04**

## **The Art of Pricing**

How to play with the rules you're given.



**At some point in  
your entrepreneurial  
journey, you will face  
an **unreachable goal.****

# Every revenue plan has a few 'levers' you can pull on.

Every company is different, but these concepts usually hold true across organizations and industries.



# Two Types of Levers



## Revenue

These levers affect your top line. Increasing or decreasing pressure on these determines how much money you will **make**.



## Cost

These levers affect your bottom line. Increasing or decreasing pressure on these determines how much money you will **spend**.

# Two Types of Levers



## Revenue Side

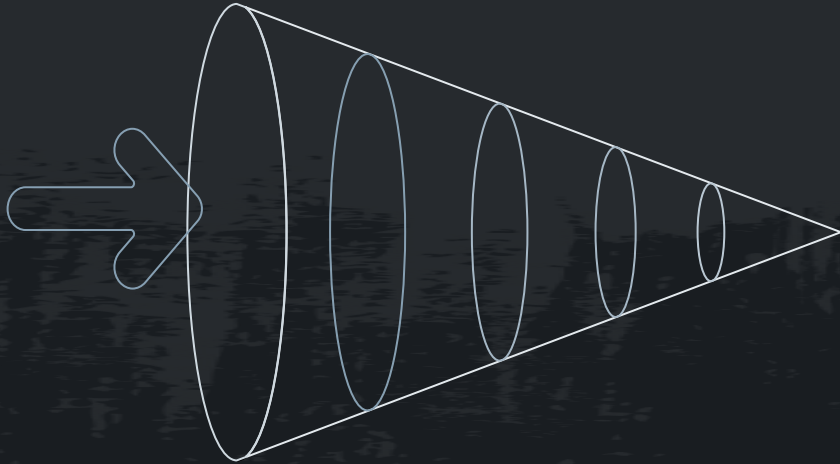
Volume  
Value  
Time  
Rate  
Retention



## Cost Side

Capacity  
Efficiency

# Revenue Lever: Volume

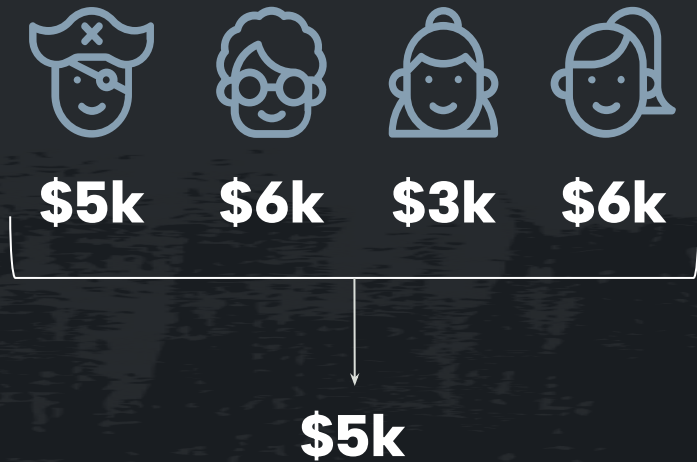


**How many** customers enter the top of the marketing funnel?

- Pre-revenue: TAM, Ideal Customer Profile
- Post-revenue: Ad clicks, Website visitors, store visits, etc.



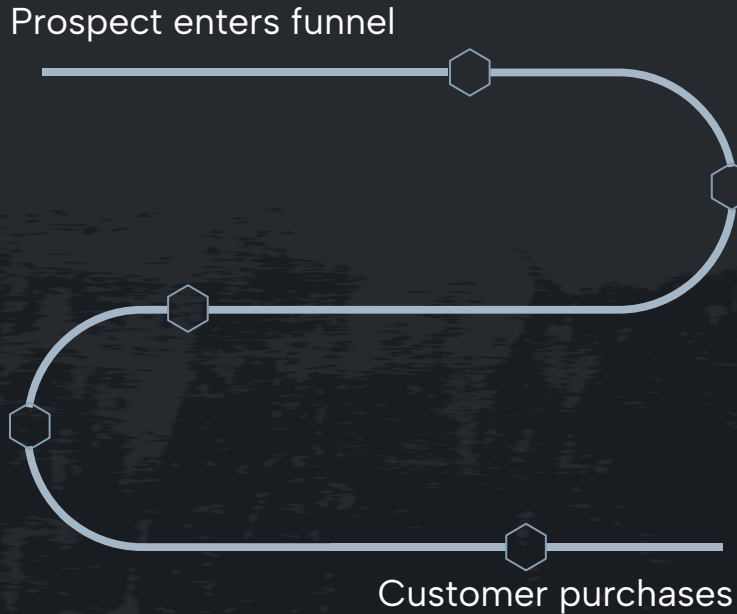
# Revenue Lever: Value



**How much** is each customer worth to you?

- Usually expressed as an average.
- Short term: First purchase
- Longer term: LTV (Impossible to calculate pre-revenue)

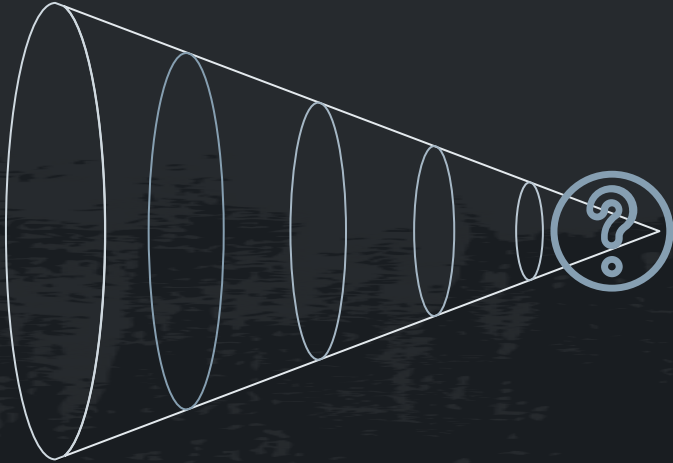
# Revenue Lever: Time



**How long** will it take you to convert each prospect to a customer?

- Otherwise known as 'average sales cycle' or 'deal duration'
- Important because revenue goals are typically time-bound.

# Revenue Lever: Rate



Of prospects in the marketing funnel, **how many** will you win?

- This is usually expressed as a rate with the total number of prospects entering the funnel divided by the total number won.

# Revenue Lever: Retention



Of customers, **how many** will you retain in the next billing cycle?

- You can look at retention and churn by customers or by dollars.

# Cost Lever: Capacity



## Marketing

- 8 full time employees
- 3840 hours per quarter



## Sales

- 2 full time employees
- 960 hours per quarter



## Operations

- 6 full time employees
- 2880 hours per quarter

**How much time does  
your organization have?**

- Time is your most expensive resource
- Every hour your team spends doing something, they cannot spend it doing something else.

# Revenue Lever: Efficiency

**\$200,000** Earned by Sales

**÷ \$100,000** Spent by Sales (salaries, expenses, etc.)

---

**2** Sales efficiency multiple

**How much output per dollar can you expect?**

- This is usually expressed as a number with the total amount earned by a team over a period of time divided by the total spent on that team.



The 'Art' is in **how** and  
**when** you pull each lever.

# Revenue Levers Summary

## Volume

How many customers?

## Value

How much per customer?

## Time

How quickly?

## Efficiency

How much output per dollar?

## Rate

What percent convert?

## Retention

How many continue to pay?

## Capacity

How much time does the org have?



# 'It Takes Money to Make Money'

## Volume

How many  
potential  
customers?

## Value

How much per  
customer?

## Time

How quickly?

## Efficiency

How much  
output per  
dollar?

## Rate

What percent  
convert?

## Retention

How many  
continue to  
pay?

## Capacity

How much time  
does the org  
have?

# The 'Adding Salespeople' Fallacy

## Volume

How many customers?

## Value

How much per customer?

## Time

How quickly?

## Efficiency

How much output per dollar?

## Rate

What percent convert?

## Retention

How many continue to pay?

## Capacity

How much time does the org have?

# Pivoting to a Higher Paying Customer

## Volume

How many customers?

## Value

How much per customer?

## Time

How quickly?

## Efficiency

How much output per dollar?

## Rate

What percent convert?

## Retention

How many continue to pay?

## Capacity

How much time does the org have?



The science **quantifies**,  
while the art **qualifies**.

# Revenue Levers Summary

## Volume

How many customers?

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# Science of Pricing

## Price Point Methods

These include cost plus pricing, value pricing, competitive pricing, dynamic pricing (Uber/Lyft), psychological pricing (\$99), price skimming, penetration pricing, etc.

## Price Packaging Methods

These include flat pricing, subscription methods, impact-pricing, tiered pricing, pay-per-use or metered pricing, freemium pricing, bundles or packages, etc.

## Price Positioning Methods

These include clear feature comparisons across pricing tiers, easy-to-understand pricing materials, transparent communication with customers, etc.

# Science of Pricing Resources

- <https://www.thescienceofrevenue.com/>
- Profitwell's Blog and Newsletter



The 'Art' of pricing is  
knowing **your customer.**



# When does your customer hear the price?

## Sales Process

```
graph TD; A[Sales Process] --- B[On Website]; A --- C[First Call]; A --- D[Via Materials]; A --- E[After Value];
```

### On Website

Some companies choose to publish prices on their websites and some do not.

### First Call

Sometimes pricing is communicated during a 'discovery call' with the client.

### Via

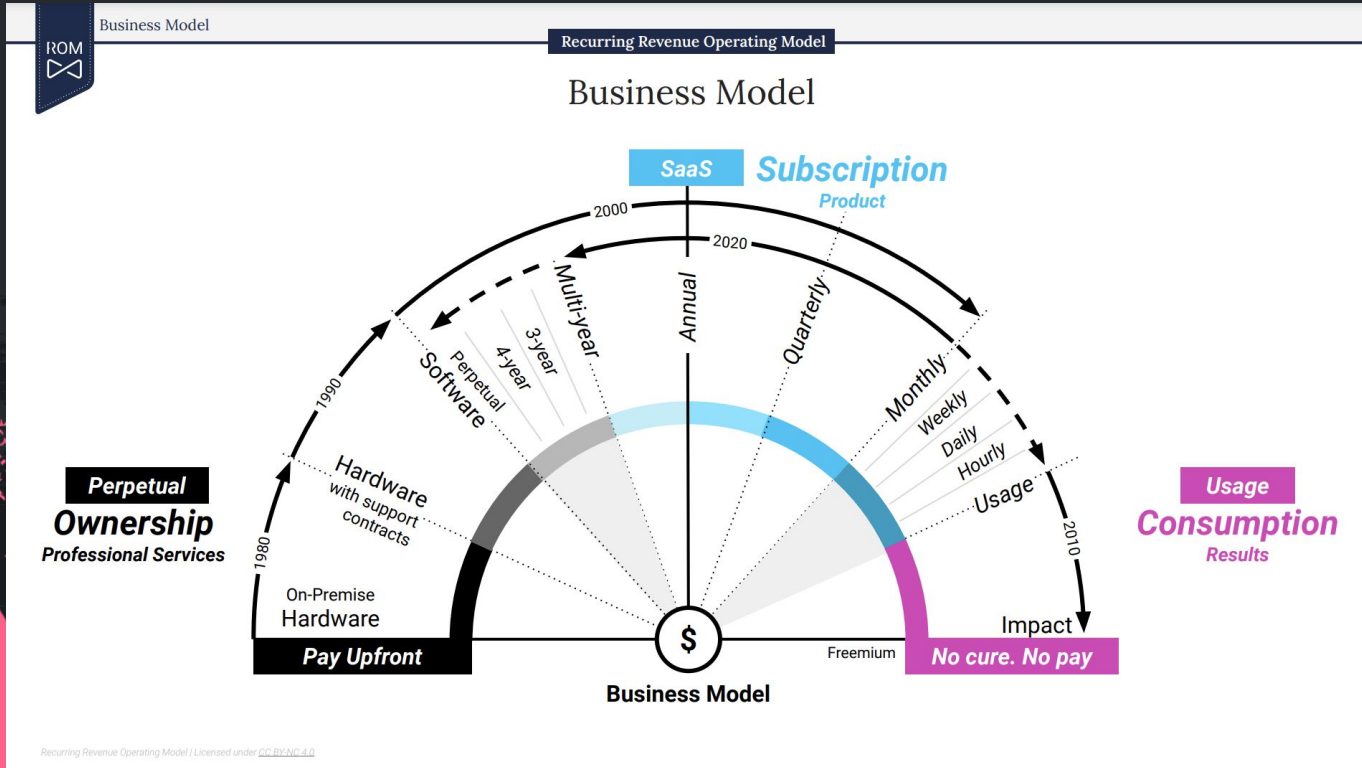
### Materials

Some companies 'follow up' with a quote or proposal. In this method the price is delivered without a person.

### After Value

Some companies choose to not disclose pricing until they can do so in the context of their product's value.

# Pricing Methods



# Loss Leaders

Goal: Capture as much of your audience as possible.

	Product A	Product B	Product C
Total Cost	\$50	\$50	\$50
Purchased by:	Early market	Middle market	High market
Perceived value:	Low, competitive	Medium	Very high

# Loss Leaders

Goal: Capture as much of your audience as possible.

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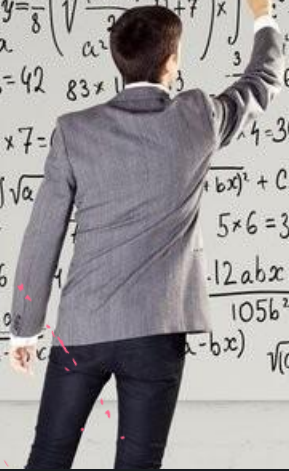
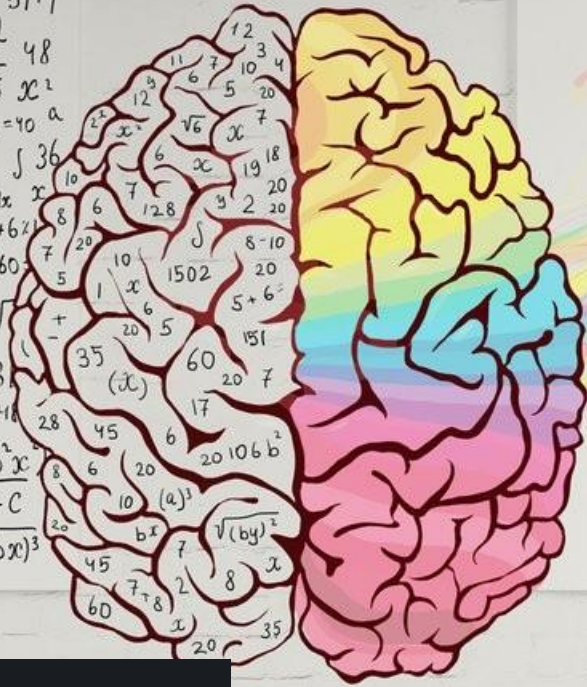
**\$25**

**\$100**

**\$300**

$x\sqrt{a+bx} dx$   $2 \times 7 = 56$   $79$   $x^2$   $42$   $51 \div 1$   
 $3+2$   $9 \times 10 = 90$   $\sqrt{5}$   $2 \times 4$   $5 \times 4 = 20$   $32$   $48$   
 $12$   $6+7=13$   $4+5=10$   $45 \times 10 = 450$   $\sqrt{6}$   $x^2$   
 $78$   $83$   $a$   $b$   $\frac{1}{2} a$   $48-8=40$   $a$   
 $21$   $y = \frac{1}{8} \left( \sqrt{\frac{(3x-5)}{2}} \right) \times \int \frac{3x^2 dx}{x^2}$   $\int 36$   
 $x$   $a$   $\frac{1}{2}$   $4+5+6$   $x$   $3$   $x^2$   $x$   
 $7 \times 6 = 42$   $83 \times 1$   $3$   $65-60$   $7$   $20$   $10$   $1502$   $8-10$   $20$   
 $a$   $9 \times 7 =$   $4$   $36$   $\sqrt{}$   $5+6^2$   $20$   
 $22) \int \sqrt{a}$   $+bx)^2 + C$   $(3$   $1$   $151$   
 $x^2$   $5 \times 6 = 30$   $4$   $28$   $45$   $6$   $20$   $106b^2$   
 $9 \times 6$   $4$   $12abx + 3b^2x$   $8$   $6$   $20$   $106b^2$   
 $a$   $x$   $105b^2 + C$   $20$   $10$   $(a)^3$   $\sqrt{(by)^2}$   
 $\sqrt{a-bx}$   $(a-bx)$   $\sqrt{(a+bx)^3}$   $20$   $bx$   $7$   $x$   
 $45$   $7+8$   $2$   $8$   $x$   
 $60$   $x$   $20$   $35$

**Learn the science,  
challenge with the art.**



# Key Takeaways

**The science **quantifies**, while the art **qualifies**.**

- There are 7 key levers to understand when building a revenue plan.
- Revenue levers: Value, Volume, Time, Rate and Retention
- Cost levers: Capacity and Efficiency
- The art of revenue is in understanding how and when to pull each lever.
- Within pricing, there is also a bit of 'science' and 'art'.
- Three key components of pricing: Price point, price packaging, price positioning
- The art in pricing is in understanding your customer.



**Q/A**