



Science vs. Art In Pricing and Revenue

CONNECTS Series Oct. 2024



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The seven key variables in your revenue plan.

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Each combination affects your plan differently.

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Tried and true methods for pricing your product.

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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

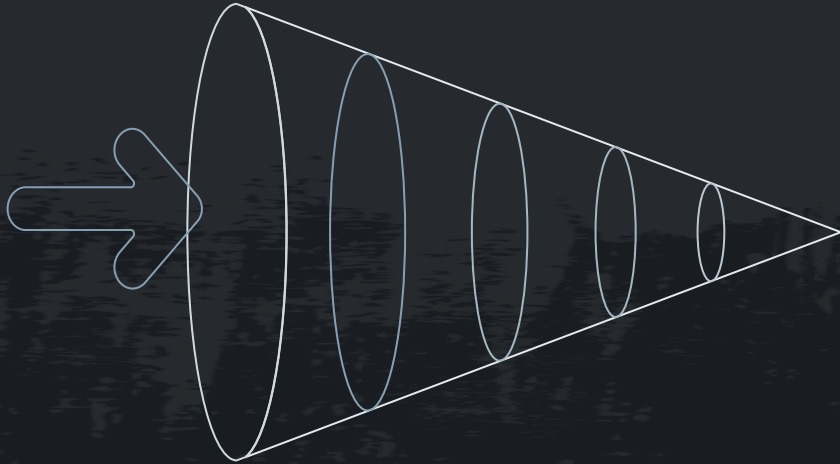
Volume
Value
Time
Rate
Retention



Cost Side

Capacity
Efficiency

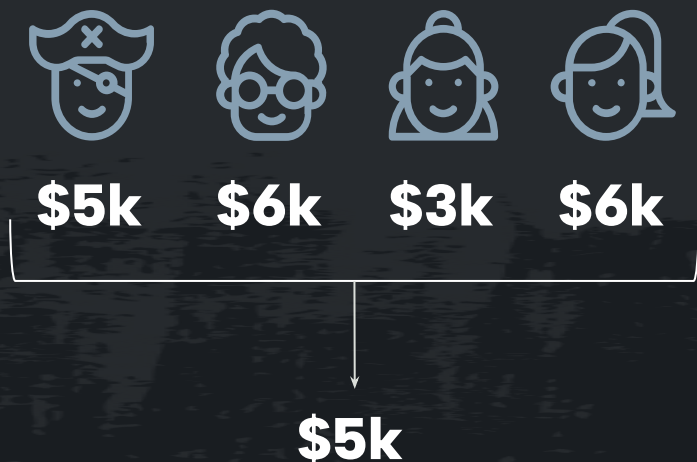
Revenue Lever: Volume



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

Prospect enters funnel

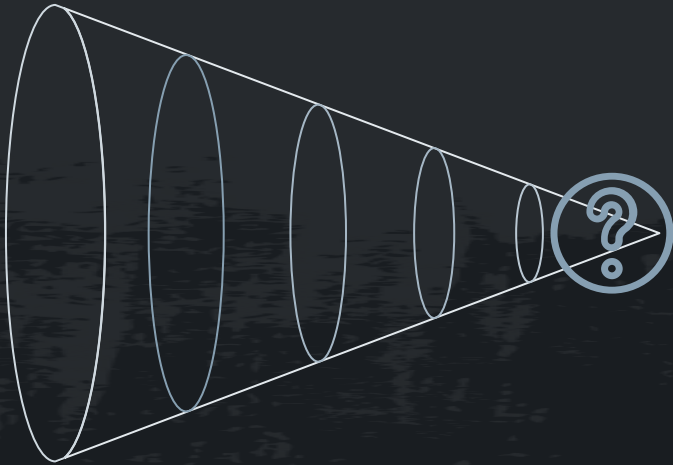


Customer purchases

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.

Cost 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.

Two Types of Levers



Revenue Side

Volume
Value
Time
Rate
Retention



Cost Side

Capacity
Efficiency



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?

Retention

Rate

What percent convert?

n

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?

Retention

Rate

What percent
convert?

n

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?

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How quickly?

Efficiency

How much output per dollar?

Retention

Rate

What percent convert?

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?

Retention

Rate

What percent
convert?

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How many
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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[When does your customer hear the price?] --> B[Sales Process]; B --> C[On Website]; B --> D[First Call]; B --> E[Via Materials]; B --> F[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

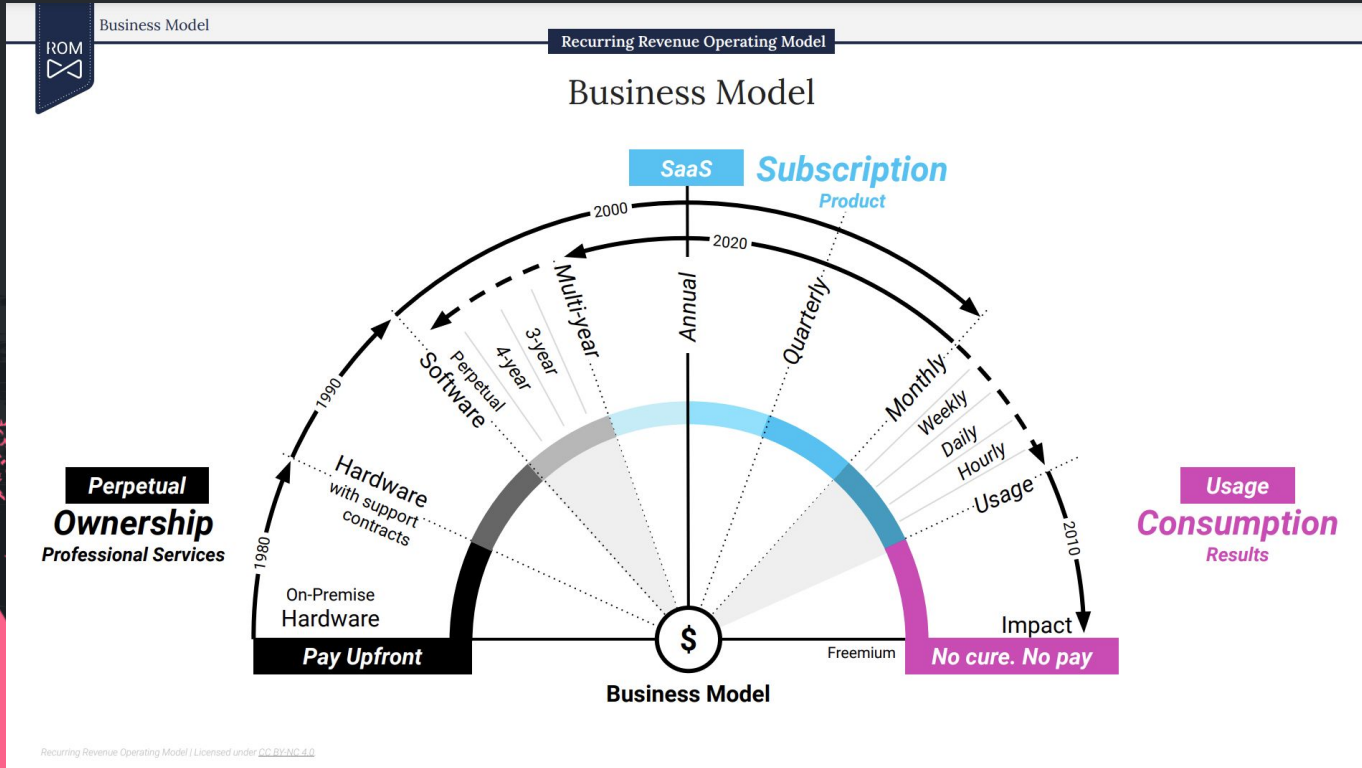
Materials

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.

Price Packaging 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

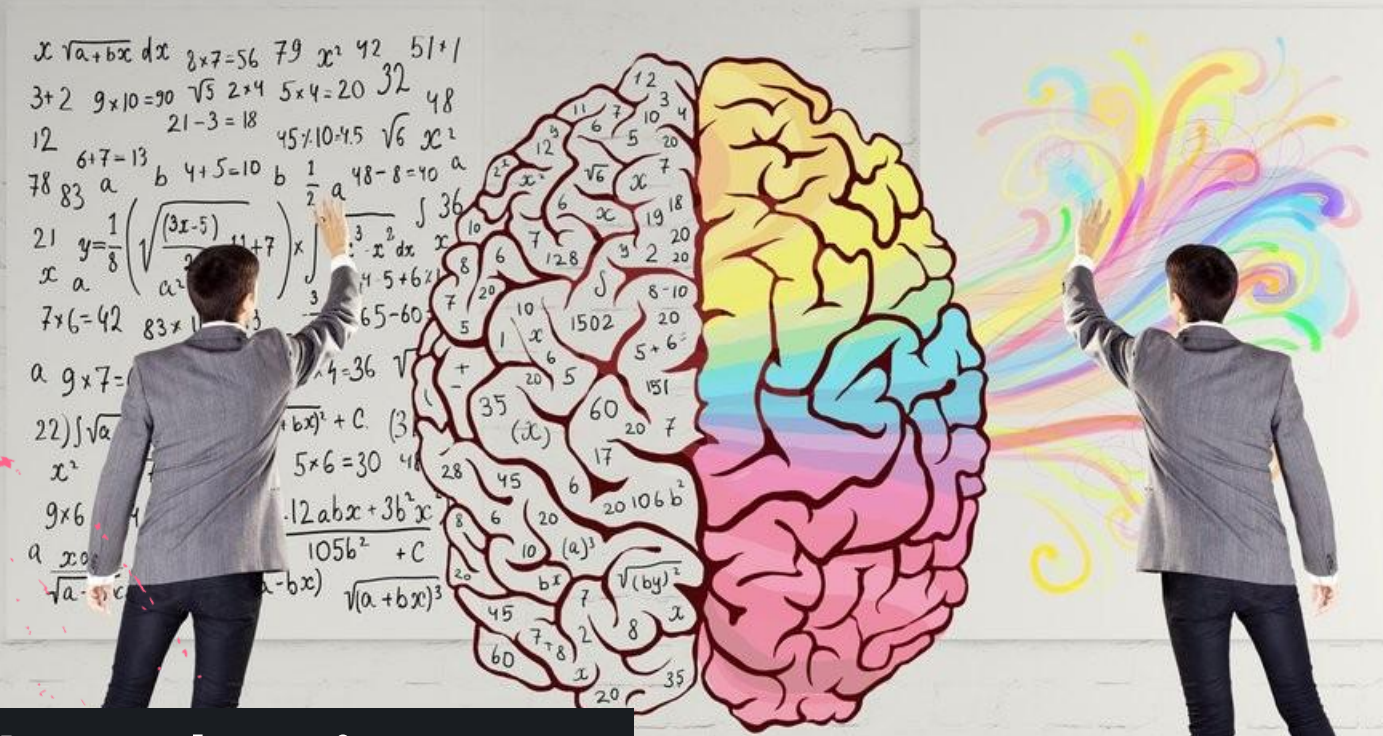
Goal: Capture as much of your audience as possible.

	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

\$25

\$100

\$300



**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



Thanks!

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