Failure Type	Description	Symptoms	Where does it occur?	Solutions
Feature shock	Cramming too many and sometimes wrong features into a one-size-fits-all product	- Product driven culture - Over-engineering - Unclear value-prop - Too many escalations - Difficult selling - Frequent price cuts	- Tech companies - Software/internet - Subscriptions - Financial services - Media/telco	Focus on: Chapter 4 Chapter 5 Chapter 6 Chapter 8 Chapter 12
Mini-vation	Despite being the right product for the right market, it is underpriced and does not achieve full market potential	- Lack of ambition - Low-balling targets - Minimal escalations - Few pricing problems - Fast sales cycles - Sales easily hits target	All industry verticals – tech, software/internet, auto, financial services, chemicals, industrial, healthcare, CPG/retail, telco, etc.	Focus on: Chapter 4 Chapter 7 Chapter 8 Chapter 9 Chapter 10 Chapter 11
Hidden gem	A blockbuster product that is never properly brought to market because it does not get recognized	- Lack of recognition - Play it safe mentality - Outside comfort zone - No one responsible for harnessing gems	Occurs whenever there is a disruption or change: in business models, channel strategy, focus change from product to services, etc.	Focus on: Chapter 4 Chapter 7 Chapter 9
Undead	Products that should have been killed - Answers to questions no one asks or the wrong answer to the right question	- Lack of objectivity - Yes-maybe-no culture - Pet projects - Very low demand - Sales struggles - Negative press	All industry verticals – tech, software/internet, auto, financial services, chemicals, industrial, healthcare, CPG/retail, telco, etc.	Focus on: Chapter 4 Chapter 9

Figure 2.5   Comparing the Four Types of Monetization Failures
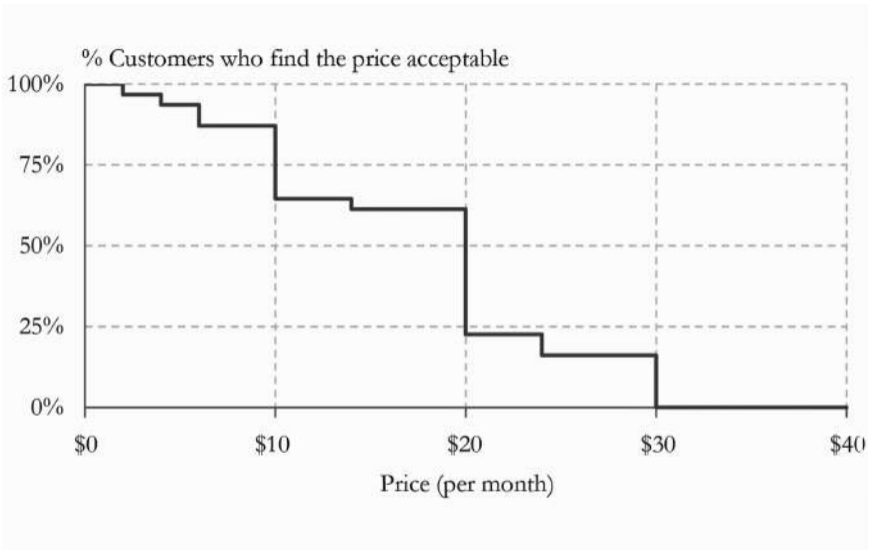
Figure 4.1   Distribution of Customers' Willingness to Pay

Features	WTP in $
Free ground shipping	
Communicate online with seller over chat	
24x7 customer support	
Early access to special deals	
Price guarantee	
Membership sharing	
Highlight connections from Facebook	
Ability to place a video call with seller	
$10 off first purchase	
Message with friends	
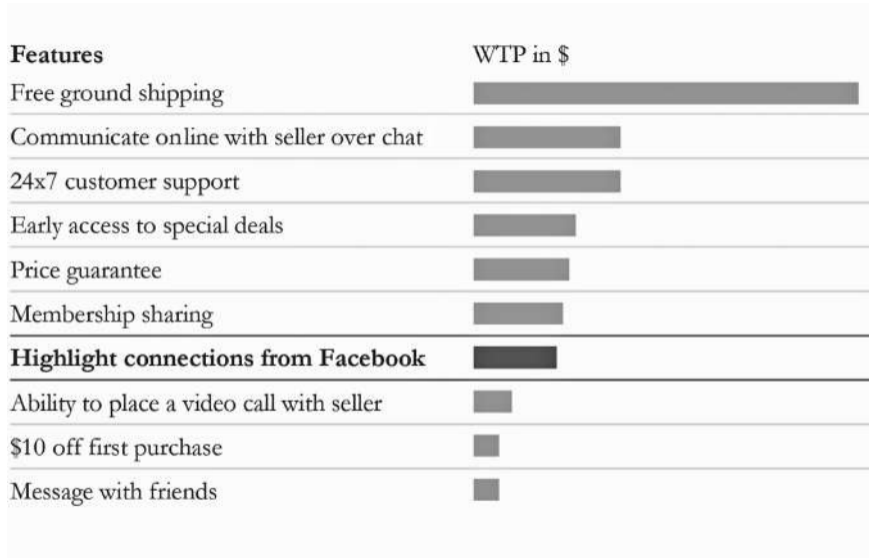
Figure 4.2   Willingness to Pay for Features

Method	Description	When to use
1. Direct WTP questions	First ask, "What do you think is an acceptable price?" Next ask, "What do you think is an expensive price? And finally, "What is a prohibitively expensive price?"	This is the easiest way to see if there is WTP for your product innovation. This method is powerful in the early stages of innovation. Asking enough people about their willingness to pay, helps form a range of what the market is generally willing to pay. Moreover, it will quickly show you if you are completely off track (especially when the market's willingness to pay is much less than what you expected). Bonus: You could also run a large-scale survey with this question and plot a graph similar to the one shown in Figure 4.1 earlier in this chapter. See if you have any psychological drop-off points.
2. Purchase probability questions	Show a new product concept, explain the value and benefits, attach a price to it, and then ask, "On a scale of 1 to 5, where 1 is, I would never buy this product and 5 is, I would most definitely buy this product, how would you rate this product?" If the answer is 4 or 5, you stop. If the answer is less than or equal to 3, you lower the price and ask the question again. Ask it a few times and see if people increase their rating (in which case, by reducing the price, your product becomes more attractive) or not (in which case you have a product/innovation issue and adjusting the price may not help).	This is the easiest way to see if someone would actually purchase your product if it were available. Typically, from our benchmarks, if someone says 5, the probability of them buying it is about 50 percent. If they say 4, the probability drops to 10 to 20 percent. While this varies by industry, you can make this a rule of thumb. If you ask this question in a larger group, you can quickly gauge the number of units you might actually sell. This would give you a reasonable indication of your market potential before building the product.
3. Most–least questions	Start with a finite set of features (10, for instance). Then create a subset of these features (say, six features) and ask customers to identify the feature they value most and the feature they value least. Then show them another subset from the same feature set and repeat the question. Repeat this process a few times (typically 5–7 sets) until you exhaust your combinations. This technique is also called MaxDiff.	This method is the quickest way to determine the relative priorities of features and identify the leader (most valued), fillers, and killers (least valued). More on leaders, fillers, and killers in Chapter 6. This method forces people to make trade-offs and indicate which features they do and do not value. The logic behind this method is that when given a set of features, people can easily identify the extremes (most and least). But people struggle to identify the in-betweens. Thus, by changing the subset and asking the most–least questions repeatedly, you force people to make the appropriate trade-offs. This helps to identify the relative priorities of a set of features.

Figure 4.3 Top Five Methods for Having the Willingness-to-Pay Conversation (from Easiest to Most Advanced)

Method	Description	When to use
4. Build-your-own questions	Before using this method, you need a rough idea of your customers' WTP and how much they value each feature (from using the previous three methods). Next, give customers your list of features and ask them to build their "ideal product" by selecting features they value most. The trade-off is that when they add more features, the total price should also increase. You try to see where they stop (based on their price and value expectations).	Use this method to identify what the ideal packages could look like for each customer (regarding feature and price combination). Bonus: You can also test for segments and bundles/packages. Particularly, if you have significant clusters of customers with varying degrees of features in their ideal product, you should avoid a one-size-fits-all approach and segment your customer base. At the least, since you know how many features were added to build an ideal product, you can use this information to avoid a feature shock.
5. Purchase simulations	This is the most advanced method in the list. (It is sometimes called conjoint analysis.) You provide customers with a product that has a specific feature set and price, then ask if they would buy it. Next you change the feature set and price and ask the question again. Typically, you show 5–8 such combinations and see how people react. This method is the closest to a real sales situation. Once you vary features and price systematically, you can estimate the value of the features and the WTP for each one.	This method is useful if the willingness to pay estimate for a product and its features needs to be more precise. A prerequisite to using this method: Identify a good set of features and have a good approximate understanding of the WTP. (Try a few of the other methods above before this one.) Based on the output, you can build a market-based model to estimate the purchase probability of any combination of features and price for your product. This method is very useful for performing advanced scenario modeling.

Figure 4.3 (*Continued*)

Needs/Features	All customers	Segments			
		"Want the best" (30%)*	"Want it now" (40%)	"Want product only" (10%)	"Want price only" (20%)
Price	21	12	18	26	36
Service programs	15	19	15	8	14
On-time delivery	15	14	19	10	13
Product performance (end user)	14	21	10	21	9
Product quality (converter)	13	17	10	18	10
Speed of delivery	13	8	18	10	11
Tech support	9	9	10	7	7

* Segment size (value)

Importance of needs/features in %

Figure 5.1 A Paper Company's New Segmentation

Figure 5.2 The Golden Rule of Segmentation

Product	Core	Product Plus	Logistics Plus	Best
Value/features	Standard paper quality and dimensions	Core +	Core +	Product Plus +
	• Standard paper quality and dimensions	• Advanced paper quality	• Next day delivery of products on stock	Logistics Plus
	• Basic phone support for trouble shooting	• Customized paper dimensions	• <7 days delivery for all others products	
	• 7-10 day delivery time	• Access to lab and lab engineers for further customization	• Delivery guarantee (freight will be paid if late)	
		• Dedicated team for trouble shooting	• Priority delivery in case of capacity issues	
Price (index)	100	115	115	125
Addressing the segment	"Want price only"	"Want product only"	"Want it now"	"Want the best"

Figure 6.1 A Segment-Based Product Offering in a Business-to-Business Market

| | **Current Account Offers** | | |
Features	Comfort	Direct	Classic
Manual transactions	free	€1.99	€0.79
SB scanner transactions	free	€1.99	€0.49
Deposits and withdrawals at counter	free	€1.99	5 free, then €0.49
Deposits and withdrawals at ATM	free	free	free
Online transfers	free	free	€0.09
Other paperless transactions	free	free	€0.49
Mobile TANs	✓	✓	✓
Debit card	✓	✓	✓
Monthly fee	**€8.90**	**€2.90**	**€2.90**

Figure 6.2   A Retail Bank's Product Configuration Decision

Segment	Segment Size	WTP for Pizza	WTP for Breadsticks
A	100	$9	$1.50
B	100	$8	$5
C	100	$4.50	$8.50
D	100	$2.50	$9

Figure 6.3 Pricing of the Pizza and Breadsticks

Segment	Segment Size	WTP for			Revenue		
		Pizza	Breadstick (BS)	Bundle	Pizza at $8 BS at $8.50	Bundle at $10.50	Mixed Bundling
A	100	$9	$1.50	$10.50	$800	$1,050	$900
B	100	$8	$5	$13	$800	$1,050	$1,300
C	100	$4.50	$8.50	$13	$850	$1,050	$1,300
D	100	$2.50	$9	$11.50	$850	$1,050	$900
				Total Revenue	$3,300	$4,200	$4,400

Figure 6.4   Bundling of Pizza and Breadsticks
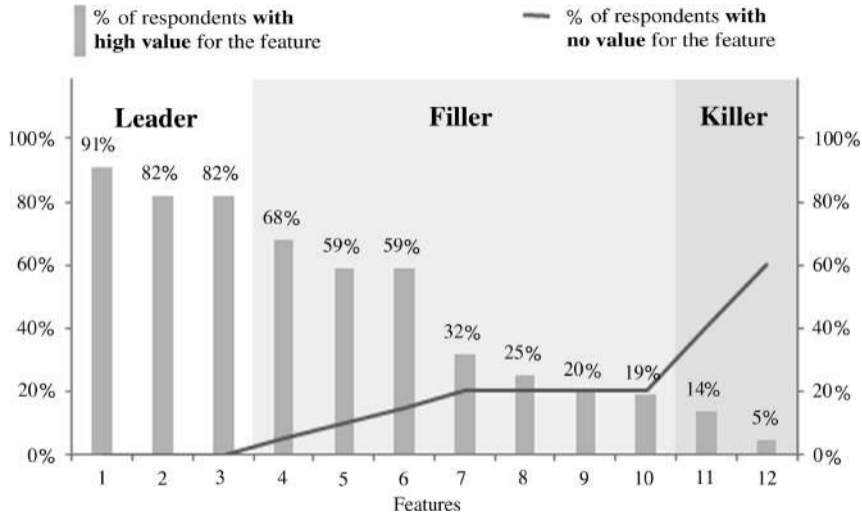
Figure 6.5　How Customers Viewed a Product's Features as Leaders/ Fillers/Killers
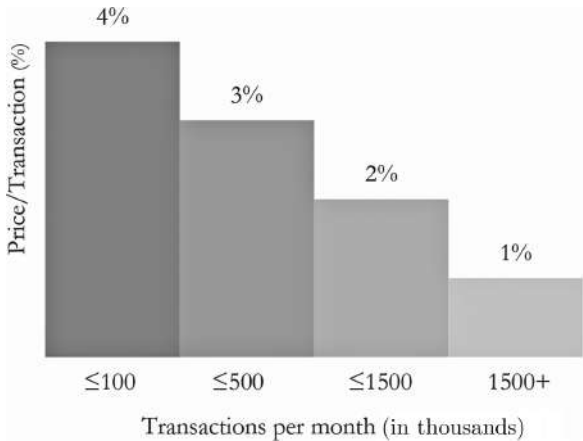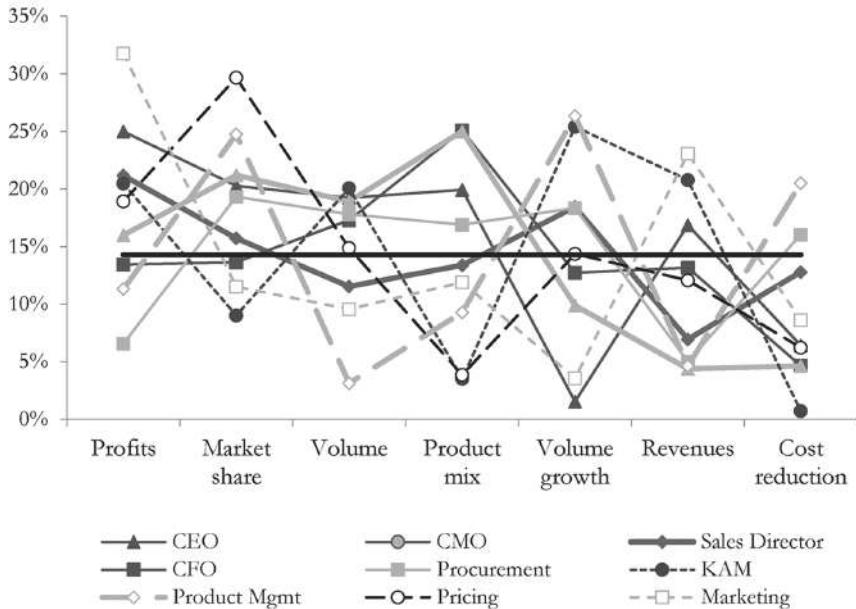
Figure 7.1 Tier-Based Pricing

	Price/Transaction (%)			
Below 30%	4%	3.5%	3%	2.5%
30% – 60%	3.5%	3%	2.5%	2%
60% – 75%	3%	2.5%	2%	1.5%
Over 95%	2.5%	2%	1.5%	1%
	≤100	≤500	≤1500	1500+

Transactions per month in thousands

Figure 7.2 Tier-Based Pricing in a Matrix Model

Figure 8.2 The Tall Challenge of Aligning Executive Goals

1. We will adopt a profit maximization strategy.
2. We will price on a subscription basis.
3. We will differentiate pricing by industry vertical and region.
4. We will never discount beyond 50 percent; we will never price below $25 per month.
5. We will end our prices in x.99.
6. We will increase prices over time using annual escalators, and the size of yearly adjustments should be around 3 percent above inflation rate.

**Figure 8.3   Examples of Price–Setting Principles**

1. We will offer promotions only to new customers. The duration of promotional pricing will not exceed one month and will never be >25 percent.

2. We will add value to preserve the price (e.g. premium features, services) as long as the price cut from the competition is less than 20 percent. We will only start price reactions if the price difference gets to be more than 20 percent to the next best competitor in the market.

Figure 8.4   Examples of Principles for Promotion and Competitive Reactions

	Price scenario						
	1	2	3	4	5	6	7
Price ($)	70	80	90	100	110	120	130
Volume (mill. units)	1.35	1.22	1.1	1	0.9	0.75	0.6
Revenue ($m)	94.5	97.6	99	100	99	90	78
Var. cost ($m)	67.5	61	55	50	45	37.5	30
Fix cost ($m)	25	25	25	25	25	25	25
Profit ($m)	2	11.6	19	25	29	27.5	23
Profit change (%)	–93	–60	–34	–14	0	–5	–21

Figure 8.5 Price Scenarios for a New Product Launch
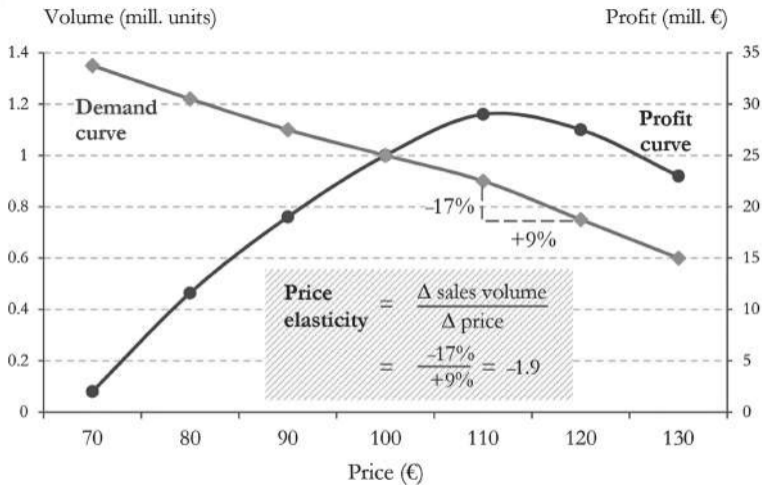
Figure 8.6 Another Look at the Price Elasticity Curve

Product examples	Elasticity range	
Price promotions	< -5	Very high
Real commodities	-5 to -50	(< -5)
Airlines	-1 to -5	High
Automotive (standard brands)	-2.5 to -5	(-2.5 to -5)
Tires	-1.5 to -4	
Consumer goods	-2 to -3	Medium
Luxury cars	-1.5 to -3	(-1.5 to -2.5)
Computer / software services	-1.2 to -2	
Differenitiated industrial products	-0.5 to -2	Low
Mobile telephony (air time)	-0.5 to -1	(-0.5 to -1.5)
OTC drugs	-0.5 to -1.5	
Mail / postage	-0.2 to -0.9	Very low
Innovative pharmaceuticals	-0.2 to -0.7	(0 to -0.5)
Bank deposits	-0.1 to -0.5	
Spare parts	0 to -0.8	

Figure 8.7   Price Elasticities for a Basket of Goods

	Customer inputs to ROI model	Impact/ROI based on customer inputs
Manual picking	4,200 hours per month	
Utilization	25%	
Inventory reduction	5%	**$5m** per year
Shipping errors	400	
Eliminate paper documents	40%	
Manual shipping	3,000 hours per month	Sales people used an Excel-based model with customers to quantify **value created** and **to communicate value**
….	….	

Figure 10.1   Conceptual Example of a Value-Selling Spreadsheet

COMPARE PLANS

Photo Website

Photo Website	Basic	Power	Portfolio	Business
Your own customizable website	✓	✓	✓	✓
Responsive design—automatically adapts to mobile, tablets, and monitors	✓	✓	✓	✓
Fully hosted, unlimited traffic	✓	✓	✓	✓
Ads and spam	Zip	Zero	Zilch	Nada
Unlimited photo and video uploads	✓	✓	✓	✓
Gorgeous, full-screen galleries	✓	✓	✓	✓
Maximum photo file size	150 MB	150 MB	150 MB	150 MB
Maximum video file size	3 GB	3 GB	3 GB	3 GB
Video quality	1080p	1080p	1080p	1080p
Video clip length	20 min	20 min	20 min	20 min
Embed photos and videos on other websites	✓	✓	✓	✓
Add photos from Lightroom, Aperture, iPhoto, and more	✓	✓	✓	✓
Detailed statistics and analytics	✓	✓	✓	✓
Robust SEO tools, including meta tags and XML sitemaps	✓	✓	✓	✓

Community and Support

Community and Support	Basic	Power	Portfolio	Business
24/7/365 real-human support	✓	✓	✓	✓
In-depth help center guides you in making the most of your account	✓	✓	✓	✓
Video tutorials provide step-by-step learning opportunities	✓	✓	✓	✓
Live online SmugMug training events	✓	✓	✓	✓
Community forums for feedback, tips, and in-depth support	✓	✓	✓	✓

Customization

Customization	Basic	Power	Portfolio	Business
Create a completely personalized homepage	✓	✓	✓	✓
Apply themes to add personal style to pages and galleries	✓	✓	✓	✓
Pick your own fonts and color combinations	✓	✓	✓	✓
Choose from 21+ premade site designs		✓	✓	✓
Create your own designs, no coding needed		✓	✓	✓
Create your own themes		✓	✓	✓
Personalize your site with easy-to-learn layout tools	✓	✓	✓	✓
Customize by simply dragging and dropping	✓	✓	✓	✓
Easily add slideshows, your logo, and more, anywhere on the page	✓	✓	✓	✓
Pick a favorite gallery style (six to choose from)	✓	✓	✓	✓
Put your logo or brand name on your site	✓	✓	✓	✓
Use your own domain		✓	✓	✓
Add optional customization via HTML and CSS		✓	✓	✓

Organization

Organization	Basic	Power	Portfolio	Business
Easily organize your photos and website	✓	✓	✓	✓
Quickly access any page, folder, or gallery on your site	✓	✓	✓	✓
Manage settings on images, galleries, and folders	✓	✓	✓	✓
Bulk manage images with drag-and-drop functionality	✓	✓	✓	✓
Bulk delete images and galleries	✓	✓	✓	✓
Drag images into galleries, galleries into folders, and folders into folders, up to seven levels deep	✓	✓	✓	✓
Sort photos by date, caption, and more	✓	✓	✓	✓
Add captions and keywords to photos	✓	✓	✓	✓

Safety and Security	Basic	Power	Portfolio	Business
Every image backed up with Amazon Web Services	✓	✓	✓	✓
Access cloud storage anytime, anywhere	✓	✓	✓	✓
Copyright is always yours	✓	✓	✓	✓
Retrieve your original photos and gallery backups at anytime	✓	✓	✓	✓
Password-protect folders, galleries, pages, and your whole site	✓	✓	✓	✓
Unlist folders, galleries, and pages	✓	✓	✓	✓
Create private galleries	✓	✓	✓	✓
Make any folder, gallery, or page completely private	✓	✓	✓	✓
Opt out of search engines	✓	✓	✓	✓
Limit display sizes to keep originals safe	✓	✓	✓	✓
Set a custom right-click message for your images		✓	✓	✓
Limit access to your folders, galleries, pages, and site to specific people you choose		✓	✓	✓
Add custom watermarks to protect images			✓	✓
Provide a private client area for your customers			✓	✓

Sharing

Sharing	Basic	Power	Portfolio	Business
Share via Facebook, Twitter, Google+, WordPress, and more	✓	✓	✓	✓
Publish photos to albums on Facebook	✓	✓	✓	✓
Allow visitors to download an entire gallery of photos	✓	✓	✓	✓
Embed slideshows in forums and blogs	✓	✓	✓	✓
Give pages custom, easy-to-remember URLs	✓	✓	✓	✓
Send photos easily via email	✓	✓	✓	✓
Create virtual collections of photos you love	✓	✓	✓	✓
Create Smart Galleries for automated collections	✓	✓	✓	✓
Allow friends and family to upload to your galleries	✓	✓	✓	✓
Enable or disable comments	✓	✓	✓	✓
Moderate comments	✓	✓	✓	✓
Get email notifications for comments	✓	✓	✓	✓
Edit, archive, and share on-the-go with our free mobile apps	✓	✓	✓	✓
Display geotagged photos on interactive maps	✓	✓	✓	✓

Prints and Gifts

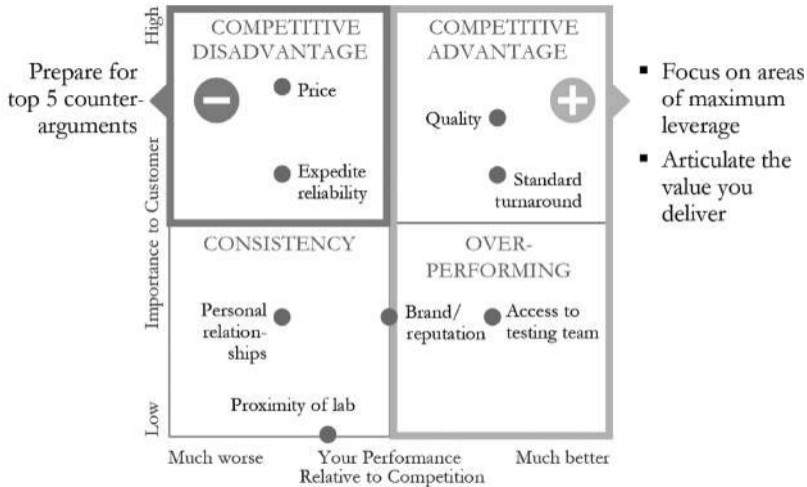| Prints and Gifts	Basic	Power	Portfolio	Business
100% Print Satisfaction Guarantee	✓	✓	✓	✓
Order prints and products with EZPrints	✓	✓	✓	✓
Enable/disable product sales from any gallery	✓	✓	✓	✓
Fully hosted shopping cart and checkout	✓	✓	✓	✓
Order prints, canvas, and more right from your site	✓	✓	✓	✓
Order products like mousepads and more	✓	✓	✓	✓
Create custom greeting cards	✓	✓	✓	✓
Allow family and friends to order photo cards from your site	✓	✓	✓	✓
Credit card processing and customer service included	✓	✓	✓	✓
Buy photo books, framing, etc., from multiple vendors	✓	✓	✓	✓
Ship anywhere	✓	✓	✓	✓
Get special SmugMug discounts with other companies	✓	✓	✓	✓

Figure 10.2   SmugMug's Pricing Plans before the Change (100+ Features for Consumers to Sort Out)

Source: Smugmug.com

Figure 10.3   SmugMug's Revamped Plans with Clear Benefit Statements

Source: Smugmug.com

Figure 10.4 Matrix of Competitive Advantages (MOCA)
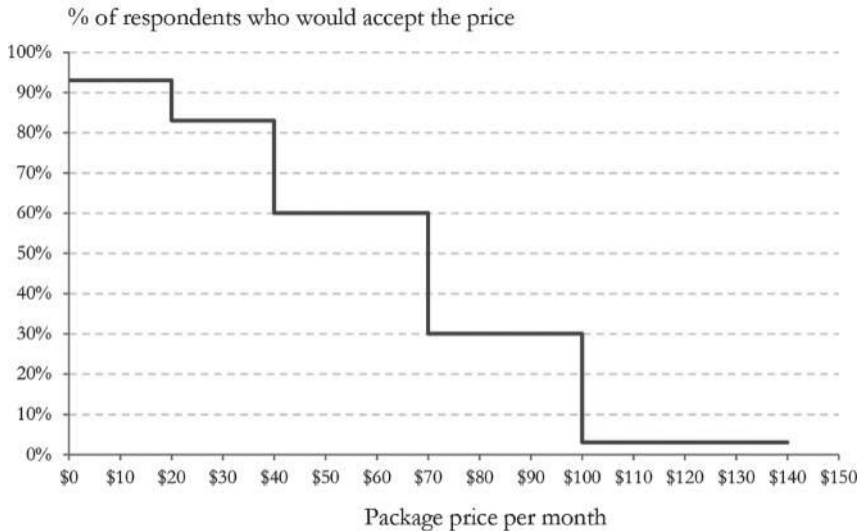
Figure 10.5 Adobe Creative Cloud's Messaging for Each Customer Segment

Source: www.adobe.com/creativecloud.html
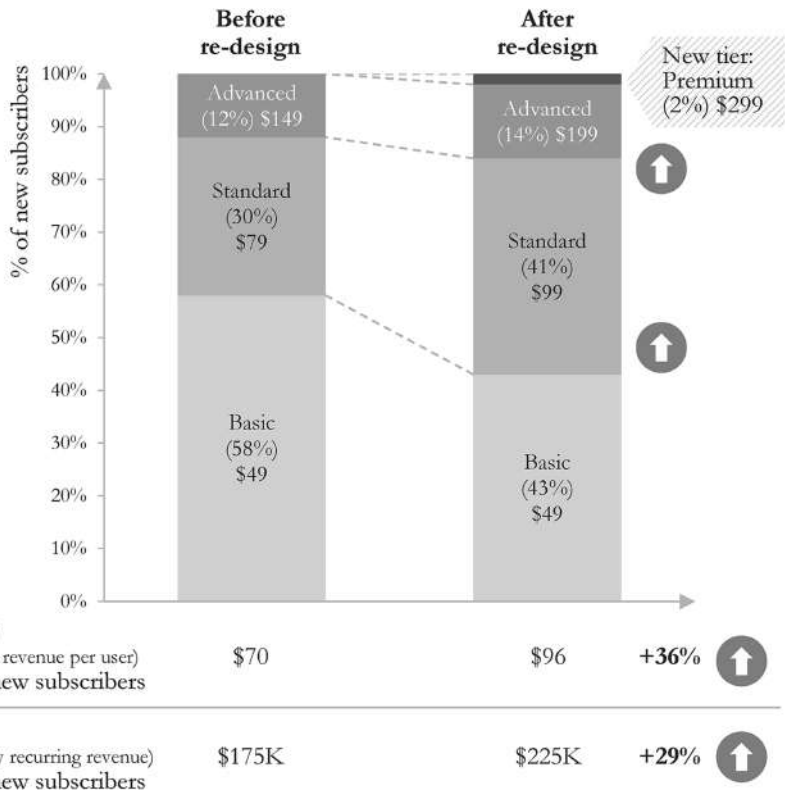
Figure 11.1 Redesigning an Internet Marketplace's Product Lineup

% of respondents who would accept the price

Package price per month

Figure 11.2 The Price Thresholds of an Online Subscription Firm

Figure 12.1 How a European Firm's Pricing Strategy Fell Apart in One Day

Rule	Product	Marketing	Sales	Finance	Monetization Team
1. Have the willingness-to-pay-talk early.	R	C	C	I	A
2. Define segments based on needs, value, and WTP.	R	R	C	I	A
3. Ensure bundling and packaging are not afterthoughts.	R	C	C	I	A
4. Choose your pricing and revenue model wisely.	R	C	C	R	A
5. Pick the winning price strategy.	R	C	C	C	A
6. Build the business case using WTP information.	C	C	C	R	A
7. Develop the right value message.	C	R	R	I	A
8. Employ behavioral pricing principles.	C	R	R	I	A
9. Maintain your price integrity.	I	C	R	R	A

Figure 14.1 Roles and Responsibilities for the Nine Rules of Monetizing Innovation. R: Responsible; A: Accountable; C: Consulted; I: Informed