



CENTER FOR HOMELAND  
DEFENSE AND SECURITY  
NAVAL POSTGRADUATE SCHOOL



# HSx MODULE: ENTREPRENEURSHIP (STEP 16 – SET YOUR PRICING FRAMEWORK)



APRIL 2017

# WHAT IS SETTING YOUR PRICING FRAMEWORK?

- “With a business model in hand, you can now make a good first estimate on your Pricing Framework, understanding that it will likely change as you continue through the 24 steps. This step is the beginning of a pricing process, because you will likely end up with multiple price points and pricing strategies, and you will iterate as you experiment and get feedback from the market about price points. Your goal for the moment is to create a first pass strategy that will allow you to calculate the Life Time Value of an Acquired Customer, which along with the cost of Customer Acquisition is an important variable that indicates the profitability of your business.”

# BASIC PRICING CONCEPTS?

- Cost shouldn't be a factor in deciding price – set the pricing based on the value the customer gets from your product, rather than your costs.
- Use the DMU and the process to acquire a paying customer to identify key price points – The DMU and the process to acquire a paying customer to identify key price points provide invaluable information about how your customer's budget works.
- Understand the prices of the customer's alternatives – It is imperative to understand, from the customer's perspective, the alternative products available, and how much the customer would pay for each, including the customer's status quo.
- Different types of customers will pay different prices –
  - a. Technology enthusiasts
  - b. Early adopters
  - c. The early majority (pragmatists)
  - d. The late majority (conservatives)
  - e. Laggard/skeptics
- Be flexible with early testers and “lighthouse customers”
- It's always easier to drop the price than to raise the price

# REFERENCES

- Module 5 – Part 1 – Entrepreneurship 103 – Introduction to Pricing  
– <https://www.youtube.com/watch?v=y-YnqaUISqY>
- Module 5 – Part 2 – Entrepreneurship 103 – 1st Principle of Pricing  
– <https://www.youtube.com/watch?v=TZicTh6WPf8>
- Module 5 – Part 3 – Entrepreneurship 103 – 2nd Principle of Pricing  
– <https://www.youtube.com/watch?v=4FAy60agrUM>
- Module 5 – Part 4 – Entrepreneurship 103 – 3rd Principle of Pricing  
– <https://www.youtube.com/watch?v=YDe3GVdoGh4>
- Module 5 – Part 5 – Entrepreneurship 103 – 4th Principle of Pricing  
– <https://www.youtube.com/watch?v=6mvBx4I1Vd4>
- Module 5 – Part 6 – Entrepreneurship 103 – 5th Principle of Pricing  
– <https://www.youtube.com/watch?v=s9-QnuskB0w>
- Module 5 – Part 7 – Entrepreneurship 103 – 6th Principle of Pricing  
– <https://www.youtube.com/watch?v=6v3lnCEcEX0>
- Module 5 – Part 8 – Entrepreneurship 103 – Summary of Pricing Framework  
– <https://www.youtube.com/watch?v=IXH2trj6OGM>
- Module 5 – Part 11 – Entrepreneurship 103 – The Formation of Ministry of Supply  
<https://www.youtube.com/watch?v=CIT8hvbcNxE>
- Module 5 – Part 12 – Entrepreneurship 103 – Kit Breaks Down Ministry's Value Proposition for Pricing  
<https://www.youtube.com/watch?v=PdHgDBTdpuM>
- Module 5 – Part 13 – Entrepreneurship 103 – Kit Breaks Down Ministry's DMU/DMP for Pricing  
[https://www.youtube.com/watch?v=tV\\_AGc5cens](https://www.youtube.com/watch?v=tV_AGc5cens)
- Module 5 – Part 14 – Entrepreneurship 103 – Kit Breaks Down Ministry's Type of Customers  
<https://www.youtube.com/watch?v=xZFMY2almcw>
- Module 5 – Part 15 – Entrepreneurship 103 – Thinking About Pricing at Your Startup  
<https://www.youtube.com/watch?v=HTP27G5K90g>
- Module 5 – Part 16 – Entrepreneurship 103 – Final Advice on Entrepreneurial Pricing  
<https://www.youtube.com/watch?v=cVAv-tx6lKw>

# Entrepreneurial Process – Set Your Pricing Framework

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**Date of information:** June 2017

**Overview:** With a business model in hand, you can now make a good first estimate on your pricing framework, understanding that it will likely change as you continue through the 24 steps. This step is the beginning of a pricing process, because you will likely end up with multiple price points and pricing strategies, and you will iterate as you experiment and get feedback from the market about price points. Your goal for the moment is to create a first pass strategy that will allow you to calculate the Life Time Value of an Acquired Customer, along with the cost of Customer Acquisition – an important variable that indicates the profitability of your business.<sup>1</sup>

## ▪ **Basic Pricing Principles**

1. Cost shouldn't be a factor in deciding price – set the pricing based on the value the customer gets from your product, rather than your costs.
2. Use the DMU and the process to acquire a paying customer to identify key price points – The DMU and the process to acquire a paying customer to identify key price points provide invaluable information about how your customer's budget works.
3. Understand the prices of the customer's alternatives – It is imperative to understand, from the customer's perspective, the alternative products available, and how much the customer would pay for each, including the customer's status quo.
4. Different types of customers will pay different prices –
  - Technology enthusiasts
  - Early adopters
  - The early majority (pragmatists)
  - The late majority (conservatives)
  - Laggard/skeptics
5. Be flexible with early testers and “lighthouse customers”
6. It's always easier to drop the price than to raise the price

## **Recent Publications, Videos and Journal Articles:**

- Module 5 – Part 1 – Entrepreneurship 103 – Introduction to Pricing
  - <https://www.youtube.com/watch?v=y-YnqaUISqY>
- Module 5 – Part 2 – Entrepreneurship 103 – 1st Principle of Pricing
  - <https://www.youtube.com/watch?v=TZicTh6WPf8>
- Module 5 – Part 3 – Entrepreneurship 103 – 2nd Principle of Pricing
  - <https://www.youtube.com/watch?v=4FAy60agrUM>
- Module 5 – Part 4 – Entrepreneurship 103 – 3rd Principle of Pricing

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<sup>1</sup> Aulet, B. (2013). *Disciplined Entrepreneurship*. Hoboken, New Jersey, United States of America: John Wiley & Sons, Inc.

- <https://www.youtube.com/watch?v=YDe3GVdoGh4>
- Module 5 – Part 5 – Entrepreneurship 103 – 4th Principle of Pricing
  - <https://www.youtube.com/watch?v=6mvBx411Vd4>
- Module 5 – Part 6 – Entrepreneurship 103 – 5th Principle of Pricing
  - <https://www.youtube.com/watch?v=s9-QnuskB0w>
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  - <https://www.youtube.com/watch?v=6v3lnCEcEX0>
- Module 5 – Part 8 – Entrepreneurship 103 – Summary of Pricing Framework
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- Module 5 – Part 12 – Entrepreneurship 103 – Kit Breaks Down Ministry's Value Proposition for Pricing
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- Module 5 – Part 16 – Entrepreneurship 103 – Final Advice on Entrepreneurial Pricing
  - <https://www.youtube.com/watch?v=cVAv-tx6IKw>

### **Other Resources:**

The Lean LaunchPad: Stanford Engineering 245. 2 Minutes to See Why:

<https://www.youtube.com/watch?v=m733s5PNpWc&feature=youtu.be>

<http://www.SteveBlank.com> – Video collection from the founder of Lean Launch

<http://www.Startupstash.com> – This is a website with hundreds of resources covering topics most entrepreneurs find difficult, especially when getting started.