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## BUSINESS STRATEGY

Commercializing any technology is the process of converting an idea into a product that a customer wants to purchase. That process can vary not only from industry to industry, but also from innovator to innovator. Some innovators want to start a business while others want to sell a license to their innovation and let others create the business or integrate the innovation into their own product.

No matter if the goal is entrepreneurship or licensing, this section will guide the innovator through product pricing, revenue strategy, sales forecasting, and funding options for a business.

This section will not specifically cover entrepreneurship skills, however, the innovator should begin to think of who is best to run the new company. Entrepreneurship is challenging, and success is all about execution and having a background in management and business strategy is extremely useful. The high-energy innovators who act as startup entrepreneurs may not have the skills to grow a business beyond the first customers. Understanding entrepreneurship skills, and where gaps in the team's knowledge may be, is critical to achieving successful commercialization. If unrealistic about the team's skills the result could be a business failure and a loss of capital.

Give thought to the end goal for the product and be able to describe it. The goal might be to make a million dollars, or start a business that provides a steady paycheck, or license the idea to someone else and keep doing a day job, or benefit society, etc. What defines a successful outcome of this project?

## PRODUCT PRICING

It's difficult to know today what exact price the product should be sold for. There are many unknown costs to consider such as evaluation requirements, manufacturing needs, intellectual property efforts, prototyping, design, engineering, raw materials and overhead. Many of these costs may have already been explored; this chapter is going to focus on establishing a baseline or guestimate price for the product and a plan for revenue streams.

There are two methods used to craft a pricing strategy; cost-plus pricing and value-based pricing. Cost-plus pricing is often used in commodity products where competitive pressures force prices to be low. In this framework, as long as the product delivers results as good as a competitor's product, there is no incentive for a customer to pay more for one product over another. Value-based pricing is used when the next best alternative product fails to meet the customers' needs. In this framework, customers have problems that are not satisfied by current competition and are therefore more willing to pay for a product that will satisfy their needs.

Cost-plus pricing is based on manufacturing or production costs to create the product. Value-based pricing is based on what value the innovation/product brings to the customer.



### COST-PLUS PRICING STRATEGY

Identify all the various components, i.e., special packaging features (clean, disinfected, or sterile), shipping costs, estimated assembly and testing costs, and add those up to ascertain the total product cost.

Overhead business costs such as rent, insurance, benefits, salaries, distribution, etc., are not included in product costs at this stage. This exercise is focused on component and assembly costs only.

**Exercise:**

Fill in the table below to help calculate product cost (replace the component names in the left column with the items which make up the product – add rows as needed).

Component	Supplier	Price estimate	Assumption (volume, minimums, shipping, tooling, etc)
Component 1			
Component 2			
Component 3			
Component 4			
Assembly			
Total		Add Price of All Components	

### VALUE-BASED PRICING

To estimate value-based pricing, reference the user interviews and market research that was conducted earlier to determine how the customer currently solves their problem and what that solution costs. For illustration purposes, some areas to think about might be; (1) what financial burden is created due to the inefficiencies from using the current solution, (2) is there product loss (i.e. using two instead of one) with their current solution, (3) is there excess material or labor in order to overcome the problem they have.

Create a list of the unique problems that the customers have stated and assign an estimated (or validated) financial burden to each unique problem/burden.

**Exercise:**

Populate the chart below with each problem area and the financial impact it has on the user. Isolate the problem areas and costs to an individual or single product use.

Problem	Why does it have financial impact?	Financial Impact (Quantify)	Costs Saved for Customer with New Technology	Validated Y/N
Area 1				
Area 2				
Area 3				
Area 4				
Others				
Total				