One Knight in Product - E105 - Dan Balcauski

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SPEAKERS

Jason Knight, Dan Balcauski

Jason Knight 00:00

Hello, and welcome to the show. I'm your host, Jason Knight and on each episode of this podcast, I'll be having inspiring conversations with passionate product people. If that sounds like the sort of thing you can extract value from, why not head over to OneKnightInProduct.com, where you can sign up to a mailing list, subscribe on your favourite podcast app or follow the podcast on social media and guarantee you never miss another episode again. On tonight's episode, we talk about pricing and packaging and all the different ways you might try to realise the value of our products, charge a price that's not too high, not too low, but just about right. Kind of like if Goldilocks worked in SaaS. We talk about the pros and cons of the various different pricing models, when you should use them and what happens when you get pricing wrong. There's also a possibly controversial take on one of the cornerstones of product-led growth, the much loved and recommended freemium model, why you probably shouldn't use it and what we might do instead. For all this and much more, please join us on One Knight in Product. So my guest tonight is Dan Balcauski. Dan's a product strategist, pricing expert and dance student who once travelled the world on his own for 18 months, which means either loves his own company or that dancing product strategists don't get invited on too many holidays. Dan's first job was a golf caddy, but these days he's aiming to be the Jack Nicklaus of SaaS pricing and packaging, and he's running a consultancy to help with just that. Taking a swing with his nine iron at some of the pricing illusions dominating the high volume B2B SaaS. Hi, Dan, how are you tonight?

Dan Balcauski 01:29

Hey, Jason, I'm doing well. Thank you for having me... excited for our conversation.

Jason Knight 01:33

Yeah, me too, should be good. And I also should emphasise I know absolutely nothing about golf, so I don't know if you're going to hit those illusions far or not very far. So first things first, you're the founder and Chief Pricing Officer at Product Tranquility. So what problem does

Product Tranquility solve?

D Dan Balcauski 01:49

Yeah, Jason, we help B2B SaaS CEOs define pricing and packaging for new products.

Jason Knight 01:55

Alright. So you're the Chief Pricing Officer at a pricing and packaging consultancy. So is that just you? Or do you have like a Chief Packaging Officer as well?

D Dan Balcauski 02:04

It's just me at the moment, although I do bring on help for delivery from time to time as the projects require it.

Jason Knight 02:09

Right. So what sort of help would that be then? Like, do you need to bring in people to actually work on some of the pricing and packaging specifically? Or is it more about sort of execution and sort of subcontractors to get some of that, as you say, execution, ... like some of the actual implementation of that out and embedded within the companies?

D Dan Balcauski 02:27

So most of our work is at the strategy level. And so that requires a lot of research. Research on data inside of the company, as well as market data, whether that's competitive analysis, pricing research with prospects or existing customers. And so I'll bring on folks to help with some of those research aspects as I get busy.

Jason Knight 02:52

Fair enough. And obviously, you know, the Chief Pricing Officer can't do all the work, right? And what sort of companies are you working for? I mean, different types of company, I guess, have different pricing and packaging problems, right? So are you mainly working for early startups or pre product market fit, or you working with late startups, scale ups, or established companies, big enterprises, or just all of those people?

D Dan Balcauski 03:14

Ideally, we work with high volume B2B SaaS firms that are about 10 to 15 million in revenue. But I've worked with startups as small as 5 million in revenue to $15 billion market cap public companies. Many of those established companies are facing very different problems. A lot of them are traditional on premises software and are trying to move to a subscription model and struggling with how to do that.

Jason Knight 03:38

Right. So you're very much looking for a subscription, ongoing, recurring revenue thing, rather than for example, try to work out pricing for packaged services and stuff like that, as well? Like, is it exclusively subscription model stuff?

D

Dan Balcauski 03:50

So I have a background in both perpetual software as well as subscription. What I classify those... we probably talk about a little bit more later is... those are what I would refer to as pricing models. Otherwise referred to as monetization models or business models. The other popular one that's big in the software space these days is Pay As You Go models or utility billing model. And there's hybrid versions of each of those.

Jason Knight 04:16

And what sort of products then are you working out that pricing for? I mean subscription tend to suppose SaaS and obviously, you're saying that you're taking a swing at high volume B2B SaaS pricing, so is it just SaaS products? And is it just SaaS products that don't have a pricing strategy yet, or you also kind of coming in and helping ones that do have a pricing strategy, but maybe it's not working out very well and that you need to come and fix?

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Dan Balcauski 04:38

What I see is, normally when companies start, they need to put together some sort of pricing, but pricing, I would say before you hit 10 million in revenue is not the most important lever in your growth toolbox. You really at that stage should be focusing on actually creating value, creating something customers want, definitely charging them something. Where companies I work with tend to have a challenge where I get brought in is they're... have established their initial product and are now looking at adding maybe a second product, maybe a set of add on modules, maybe they've acquired another company, maybe they're looking at serving a new target market segment that's at that stage where they realise their existing pricing strategy isn't going to work, or they can't just... a simple pricing change won't make the impact that they hoped for. And they decided to be a little bit more rigorous about the approach. That's usually where my clients come to me.

Jason Knight 05:37

Yeah, that's interesting, that kind of concept of a portfolio approach to pricing as well. So sort of going in there and making sure that everything hangs together and it is all consistent internally. And I think it's fair to say that there are many companies out there that seem to have quite a lot of difficulty with this. So maybe we'll talk a little bit about, you know, some of the ways you can help with that difficulty. Maybe they can even phone you up afterwards and see if you can, but pricing sounds really simple conceptually, right? I've got a product. I want to sell it, you know, it cost me a certain amount to build, presumably, I know roughly how much other people pay for that sort of product if there's other competitors that are in the space that have got public pricing. I could probably just pick a price similar to that, see if people buy it. I guess you're saying that we can't really do that... we can't really just make it up as we go along and we have to be very purposeful about that. Is that fair to say?

D Dan Balcauski 06:26

I wouldn't recommend it. When it comes to SaaS pricing. Most executives think what you charge will determine your success. In fact, who and how you charge determines your success. And so one of the first decisions that you need to make is... what is the overall philosophy or pricing orientation your company follows when it comes to pricing? And there's three basic pricing orientations. And companies usually follow them in this order, which is a cost based pricing approach, otherwise target markup pricing, competitor based pricing, and then value based pricing. And value based pricing is this holy grail, Northstar. It's a destination never to be reached, but always to be strived for. But that's usually how companies progress. And there are pros and cons to each.

Jason Knight 07:11

So why don't we talk a little bit about some of those pricing models then and maybe some of the pros and cons of each, then? Because yeah, as you say, and as I've kind of been taught as I grew up, value based is kind of, as we say, like the Holy Grail, right? It's the way where you you can go out there and really charge a fair price for the value you're giving. But what are, say, some of the disadvantages, for example of a company pursuing a cost plus model, for example? And I guess, for our listeners, what is a cost plus model in case they've never done pricing before?

D Dan Balcauski 07:39

Yeah, so a cost plus model is the simplest orientation to pricing. So what you do is you look at your cost of goods sold, your COGS, and then you say we want to achieve a certain gross margin percentage based upon those COGS, so you have some markup that you apply. So we want to have an 80% gross margin, our cost of goods sold is X. And so I have a 5X markup on my my cost of goods sold to get my price. It's a relatively simple pricing method and relatively clear cut, the data's usually easily available within the firm. And it's beneficial because it can help you set a price floor, which below, your pricing would be unprofitable, and you go out of business. And it's ultimately not a bad place to start, because it does at least give you a way to cover your expenses. However, the primary drawback is that your customers don't really care about your costs. I've never bought a piece of software and asked the vendor, how many hours of engineering time did it cost you to build this piece of software? Like it's completely irrelevant to me. There's no consideration in that model of a customer's willingness to pay or the perceived value of the product. And it doesn't take your competition into account when devising pricing.

Jason Knight 08:54

So then there's competition based pricing, which to me sounds like you're basically just gonna look at your competitors, like I said, in my stupid example and just charge either roughly the same as them or try and undercut them a bit. Like, is that what that type of pricing means to you? Or is it a bit more nuanced than that?

D Dan Balcauski 09:10

The idea with competition based pricing is you're looking at the other competitors that do the job that you're trying to accomplish for customers. And so like cost based pricing can be a relatively straightforward exercise, especially if you're in more of a blue ocean market with transparent pricing, your competitors have pricing that's publicly available. And it could be a good step at helping to determine baseline pricing and understand where you provide differential value. But the major problem is almost no CEO would ever give their direct competitors control over their demand generation or their product strategy. So this assumes your competitors have done their homework, know what they're doing and it gives your competitors control of your pricing, which is a huge lever for your business. It also implies your target customers evaluating the same competitive set and that those competitive products are directly comparable. There's often even in very competitive software markets ... still a high amount of differentiation between products. It still doesn't consider customer willingness to pay. And if you're in a market where there's opaque pricing, where there's... this can happen much more in enterprise, it can be challenging to know what your underlying competitive pricing is reliable or not.

Jason Knight 10:30

Yeah, for sure. And actually, one of the things that, when, as you were speaking, I was thinking about and you kind of touched on it yourself is this idea that if you've got, say, six companies that are competing with each other in a market, and none of them have done their pricing homework, they could all be basically charging just nonsense pricing and driving each other's prices into even further levels of nonsense, because none of them actually did their job properly. I mean, is that dynamic that you've seen in your career when you've been consulting with people?

D Dan Balcauski 10:56

We call that herding, where everyone is just following each other, and nobody's actually leading until a big bad wolf comes and the whole pack runs in maybe off the cliff, which is not ideal.

Jason Knight 11:08

But what is the big bad wolf in that analogy? Is it like another competitor comes in and does it properly? Or is it just the crushing pressure of the market? And, you know, their cost base kind of taking over?

D Dan Balcauski 11:18

So at a high level, right, you haven't considered your customer's willingness to pay. So the hidden wolf is that you're leaving potential profitability on the table. Which nobody wants to do. Remember that it's illegal to have tacit or explicit collusion on pricing. A cartel, yeah, you don't want that unless you're OPEC. Hopefully, I don't end up on a list somewhere because I said that. But in general, you know what the problem then is, you're potentially looking at or missing your disruptive competitors who are going to come after you, y'know eat your lunch, as well from below. And so that happens all the time in software, as well. So it can really, again, keep your focus on the wrong overall goal, right? Your goal should be pricing for long term profitability. And that is assessment of the competition you have today, the competition you're going to have in the future, as well, as you know, what your customers are willing to pay in the value and making sure that you're capturing fair value for your product.

Jason Knight 12:22

Yeah, I think it's really interesting and you've touched on it a little bit, the kind of concept of the competitive set and the job to be done and what you're actually competing against as well, because it's not always just those other five companies, right? But maybe we'll come back to that again in a bit because I know that you're pretty keen on jobs to be done as a methodology. But before we do go on to that, just to finish off the trio, like when we're talking about value based pricing, the Holy Grail, what should people consider? Like, what is that for people? And why should they go that way.

D Dan Balcauski 12:49

So value based pricing is aligning your pricing to capture a fair amount of the value that you create for your customers. And it's customer focused, it gives you control of your pricing versus ceding it to your competitors. And just generally most research supports it's a superior way to set pricing. There are trade offs, it does require an overall internal organisational orientation towards this pricing philosophy. It demands deep understanding of your market and customer segments via research, which can be more costly in terms of time and money. And it often feels a bit fuzzier to managers, where there's not necessarily one right price versus if I give you... here, here's 10 competitors, we'll just price right in the average of all of them that feels somehow more scientific, then asking a bunch of customers about their willingness to pay, and then setting pricing based upon that.

Jason Knight 13:45

But if you've got those ten competitors, and all charging X, and you go out, and you work out that the value of the product that you're selling, or the job that you're doing is five times X or something like that, then obviously, from a value based pricing perspective, you probably want to go and charge a lot closer to that 5X right? Because that's the actual value that you're placing, like maybe you don't get all the way there but you certainly want to be in that neighbourhood, as we kind of discussed earlier to get the maximum profitability out of the transaction. But you've still got this gravity of the other nine companies that are presumably trying to offer something fairly similar, that haven't done their homework. So they're charging more of a say, maybe commodity type price. Like, how can you if you go out there, and even if you decided that the value of what you're offering is actually worth 5X, how can you get away from those Xs and actually try and get people to buy you because surely the human nature is just gonna be these companies are just gonna go and try and buy stuff from the cheap people?

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Dan Balcauski 14:42

There's a whole bunch of ideas wrapped up into that question. And so I think the first thing is, you don't necessarily... there's not any buyer that is omniscient, that has full understanding of every option available in the marketplace. The economists refer that as Homo Economicus. They make perfectly rational decisions, they have full insight into every option available to them. They've researched every nook and cranny of all those options and make the 100% rational decision. So that's point 1. Point 2... You've brought up a good segue in that there's this concept of economic value. So economic value, is the idea that you cannot charge the full use value or utility, as economists would call it, for your products, you can only price... you only have pricing power for differentiated value. So we're talking about competition. The idea is, the market will set a price for non differentiated value, and you have to respect that. What you're trying to look at is where do we either positively or negatively differentiate from our competition? And look at that adjustment to overall economic value from there and then use that as a first step in understanding what is our overall range that we're able to price in? So yeah, you if you're non differentiated, you're going to have a very difficult time in setting a 5X price. But I think the third point, it's inherent in one of the reasons why the value based pricing approach is so difficult, it requires an entire orientation of the company. And that goes to not only the managers that are responsible for setting the prices, but marketing in being able to clearly articulate that value proposition. And as well as sales, to be able to justify that price point with prospects. And what we're getting at there is the transition between the concept of economic value to perceived value. So the perceived value is oftentimes less than your overall economic value. So, you know, we may be able to justify, go on from an economic case, we can charge 2X the competition, but there are things like trust, the understanding that the prospect has other alternatives. And is there a risk premium or a risk discount associated with our ability to actually deliver that value, as well as our sales and marketing organisations to clearly communicate that value in order to influence perceived value?

Jason Knight 17:20

So what are some of the symptoms of poorly executed pricing or packaging? Like, I mean, you could probably assume that some would be either no sales or too many sales, but at not enough money in revenue declining, eventual bankruptcy, like, these are all things that would be kind of knock on effects from getting your pricing wrong for too long. But are there any signals that you might look out for when you're working with a company that kind of give an early warning signal to say, actually, this is something that's not working for you? And this is why?

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Dan Balcauski 17:49

So number one, and this happens a lot is when companies come to me with a spreadsheet, and all we're talking about is margins. Then I understand that they're looking at a cost based approach. And there's huge opportunity to reorient them to the overall market. That's number one. Number two would be things like, if your offer configurations or bundles... in most B2B SaaS you have this concept of a good, better best. And there should be a... not necessarily even split between all of those packages, but if you have one or two of those packages that's not selling anything, you've got a problem. There should be some amount of fair distribution among those packages. I would not necessarily rely on prospects telling you your pricing is wrong, because that information is going to be highly biased. No buyer... well, actually, I have heard of cases where customers have said, after a purchase, I would have paid you 10 times more for this. So maybe you want to listen that. But generally what you'll hear, especially from sales folks, is that our pricing is too high. Because there's always an incentive for a prospect to tell a salesperson, hey, your pricing is too high. That very well may be the case and should be treated as a signal but should not be treated as honest truth. The flip side, if you're not hearing from anyone, that your pricing is too high, that is a problem. You should be raising your prices to the point where you are getting some feedback from the market that your prices are too high.

Jason Knight 19:28

This reminds me of the old, well I don't know if it's old, but the van Westendorp pricing technique where you've kind of got the concept of too high because you start to not want to pay for it but too low and you start to doubt its quality. Right? So I dunno if it's quite the same, but it kind of rhymes with that a little bit. It feels this whole idea that you want to get some signals each way, right?

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Dan Balcauski 19:48

Correct.

Jason Knight 19:49

But I'm assuming that we can't just, you know, we've already said we can't just make this up as we go along. So are there any kind of concrete steps.. is there like a three step plan A-B-C, do this, execute it and then that's your pricing? Like, what's that process look like for you? What do you go in and help these companies do and some of the steps that you'd advise that they go through to actually understand where their prices should be?

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Dan Balcauski 20:10

I have a four part model for...

Jason Knight 20:12

Ah four part/ three part

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Dan Balcauski 20:13

Yeah, sorry, I added one more part. I hope that's okay. I got a four part model for understanding B2B SaaS pricing. So it starts with understanding your customer segments. The core truth is that you cannot build a product for everyone. Your customers are... your market is heterogeneous and they will value different things. And so understanding the customer segments that exist in your market is step one. That falls into two other buckets, which is value and competition. So the value that each of those segments experiences from your product will be different, because customers have different levels of importance on different value drivers. Match that to... each of those segments potentially have different competitive alternatives that they may be using. And I take a very jobs to be done approach when thinking about competition. So most B2B SaaS companies are not necessarily competing with the startup down the street, but email and spreadsheets.

Jason Knight 21:12

Yeah, Excel every time, right?

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Dan Balcauski 21:13

Exactly. And understanding what those competitive alternatives are. Again, going back to our conversation on economic value, we'll understand what is your differentiated value given the... if you didn't exist, what would your customers do in the marketplace? Those three sections you can think of as research inputs to your overall pricing strategy. Your pricing strategy encompasses things like, okay, given the segments that exist, that there are those relevant, better alternatives to those segments, the value created for each of those, which is the segments that we want to target? How are we going to position ourselves in the market given our differentiated value? Your... what is our overall pricing strategy? What is the metric we're trying to optimise? Is that revenue, market share, profit, gross margin, and then making the price / packaging decisions. Those would be a price metrics, your bundles, offers, configurations, all of those feeding into that final strategy component.

Jason Knight 22:12

Yeah, that sounds fair enough. And then the output of that, I guess, then is used to literally drive the numbers that you... that you're going to put on your website, or that you're going to put in your in your sales teams hands like is that the ultimate output of this? Like? How does that become actionable?

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Dan Balcauski 22:26

So there's a set of activities that are involved in any pricing study. So the first is overall alignment? What is the overall objective? What are we trying to achieve with our pricing? What is it that we know about our existing customer segments or what do we think we know about our existing customer segments? And what are the hypotheses we have about potential pricing and packaging approaches. Then we'll go through a set of research activities and those could be direct qualitative discussions with prospects or customers, competitive analysis, pricing based surveys, and then bringing that data back into the organisation to refine your hypotheses, and then move on to the next stage. You may do several iterations of that, followed by some amount of financial modelling, making sure that you know the packaging, etc, that you've come up with. How does that affect potentially existing customers, you know, in the transition? How does that affect different customer usage patterns, right? Are there places where those break? So it's a set of, you know, hypothesis generation, alignment, research, and then testing and then eventually an implementation.

Jason Knight 23:38

But it's interesting, talking about packaging, actually, because one thing I've seen around and about in my travels is, like you talked about this good, better best type approach, or maybe even free, good, better, best or free, good, better, best, enterprise and the different configurations of product packaging you can have. But some people almost seem to go for a car configurator or something like... you can just pick absolutely anything you want, and all these different configurations, get a price out of that and then that's what you then eventually pay once you've worked that all out and hopefully it all hangs together properly. Do you think that that's a good thing to do when people have maybe more complicated products? Or do you think that that packaging is still crucial in that situation and they should try and keep it as simple as they can?

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Dan Balcauski 24:19

So the idea of good bundles or offer configurations is to streamline your go to market motion, reduce your customer acquisition costs. So you're allowing customers to self select into the option that is most relevant to them. Allow your sales team to have directed conversations without presenting a Chinese menu of 1000 options. So most cars, at least here in the US, right, maybe there's a base package. There's the sport package, there's the luxury package, where each of those has a bundle of features, right? And I don't necessarily as a consumer need to line by line understand each of those features, but just say, oh, yeah, the sport package sounds like you're my style, or the base package, it sounds like my style or whatever it might be. And so it allows customers to more quickly self select without needing to understand value of each individual line item. And most B2B software products have this exact problem where you may have, you know, even for a relatively simple application, you might have 100 features you could enumerate, and in a sales conversation, there's no way your sales team wants to explain the value of each and every one of those features. But there's going to be specific features at each package that drives the move between the upgrade path of each of those features.

Jason Knight 25:50

That's fair enough. But on the topic of packaging, I mean, I saw on LinkedIn that you've said something along the lines of freemium pricing is quote, unquote, almost always a bad idea. Now in these days of product-led growth, and all the books and blog posts that you see about that, that's a fairly spicy statement. Is that something you can back up with facts? And if so, why is it a bad idea?

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Dan Balcauski 26:14

One of my favourite topics. Thank you, Jason. So I actually got my start in the pricing world, when I went to business school, get my MBA it took, I was actually lucky. I didn't realise this till after the fact. But most even business schools don't have pricing classes. And we can talk about the downside of taking pricing classes as well, and you get to the real world of pricing. But my internship, I worked for a very successful Silicon Valley startup. And they were facing a challenge. Their go to market model relied on several very large partners who they sold through and one of the partners had pushed them, they required them to have a freemium offering. Based upon that partner's positioning in the market. They wanted to be the low cost player, and so they were pushing all their vendors to have a freemium model. So the question on the table was, should we do this for the rest of our offerings, and so I spent a good chunk of that summer, digging into the ins and outs of freemium model, I found out that it's mostly a terrible idea. Most of the reasons people propose a freemium model can be better answered, with a 14 to 30 day free trial. Freemium causes a bunch of problems internally. Number one, it's difficult to move customers from free, you have this problem called called the penny gap, which is I'm paying nothing to get you to whip out your credit card and pay something is still a large motion. It's not necessarily any easier than if they just came in as a cold prospect. Coupled with executives are constantly tempted by the illusion of this pool of free customers that we could potentially convert into paying customers. Now, best in class, best in class freemium companies convert one to 3% of free users. So you're looking at, you know, this pool of 99% of users that are not paying you. And now, as every company does, you're tapping out your growth avenues, your channels, you're looking for easy wins, you're like, well, we should put more energy into trying to make these free people convert. But the truth is, it's going to be a lot of wasted energy, most of those people will never convert. Also, it creates an internal tax on every feature you develop. Now, every feature needs to go through this goat rodeo of should this be on the free side, or the pay side, we put a little bit on the free side. So every feature you now want to build has to go through that discussion. And I think there's a pernicious narrative going on in the market right now that if you do freemium, it improves your CAC metrics or customer acquisition cost metrics. And it may look better, but that's usually only because R&D investment isn't usually included in marketing expense, which it should be ... so you're basically just playing games with the income statement by saying that. So you're shifting money from R&D, into marketing with this little... this little move. And so it looks like your customer acquisition costs are getting better. But you know, it's actually not. You know, that's all to say, why I wouldn't recommend it. To be a viable option, you really need an incredibly large market. So if you're only planning on converting one to 3% of those, you literally need a potential market of like millions of customers or to make it make sense. Sometimes there are specific competitive environments where it can make sense. I would use the example... back in the day, the company Evernote was was shown as the sort of the darling of freemium. But they had a major problem, which is Microsoft has OneNote, which they gave away for free. And so in order for Evernote to have a viable go to market model, they were sort of forced into a position of having a freemium offering. Now, I haven't talked to Phil Libin about this, but I'm pretty sure for the outside, that's exactly what the situation was. Most companies aren't in that position where they have one of the giants of the industry giving something away for free. It can be useful in ... for developer focused products, where, for example, if I'm a developer doing a lot of development in my development environment or staging environment, it's not a production environment, that development process for me to see value and finish that feature I'm integrating, that might be a six to 12 month cycle for me to build that. And so ... I want to make have, you know, that availability, but it's not like I have the capability then run in production. And I think the other areas, you have something like Slack, where you have a social product, where you know, there's no fun showing up to a Slack group, or that no one else is in? Well, maybe maybe it is if you really dislike slack, but ...

Jason Knight 30:53

Well, you did go on holiday on your own for 18 months.

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Dan Balcauski 30:56

Exactly, exactly. So in those cases where you need a mass of people to all be there at the same time in order to have something valuable, then it can work. But I think those are very limited cases. And most of the excuse, again, most of these problems can be solved with a free trial. So the whole underlying concept behind the free trial or freemium is, software is what's called an experience good. Which means my perception of the value changes as I use the product. But like I said, if you have a free trial, you can get that same overall benefit.

Jason Knight 31:32

Well, I'll get the product-led growth people out and we'll see if we fight going after this. And have you ever in your time got pricing really wrong in your career? Like, have there been any situations where you look back on and you think yeesh, that was a bad one? And if so, what happened?

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Dan Balcauski 31:47

There are a few that come to mind. I mentioned before, you know, I looked, I'd taken some pricing classes in business school, and one of them was really focused on how retailers use promotion and pricing like so if you're going to the grocery store and buying orange juice, for example, how does the changing the pricing of orange juice? Or is it on promotion? What size containers do you have or are our competitors running different promotions? Those all rely on an extreme amount of market data that you just don't have in the software space. So it's almost impossible in B2B software to establish the demand curve. If you read your economics textbook, it's simple right? Set your pricing, where marginal revenue equals marginal cost, problem solved. The problem is, in reality, actually figuring out what the demand curve looks like, is nearly impossible. And there's a lot of other drawbacks of using market data. So I've gone down that route, when I was first doing pricing in the wild, as an operator, trying to look at transactional data to do that same type of analysis, and it just ended up in sadness and tears.

Jason Knight 32:59

And did that the company survive?

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Dan Balcauski 33:02

Dan Balcauski 33:02

The company did survive, the company did survive. I think the other.. this is a slightly... a different project, for those at the same company, which was not understanding value first. You can't, you know, innovate price on a bad product to turn it into a good product. If you don't really understand where the value is in a product, it doesn't matter how much you make the pricing attractive, it's not really going to solve your problem. And then I think this is a wide ranging issue for all market research, b ut a lot of the pricing research, if you're doing surveys relies on market panels. So these groups of people that will take surveys, etc. And the current state of that is a cesspool of fraud. So you need to be very careful when doing market surveys into panels. I've gotten burned by that before where you think you're surveying IT decision makers, and you're really getting, you know, people running VPN farms out of somewhere, some third world country to get those incentives.

Jason Knight 34:05

Yeah, I worked in market research for a number of years. So I'm well aware of most of the issues that you were just talking about, and probably a few more as well. And where can people find you after this if they want to talk to you about pricing or just catch up? Or maybe find out about some of the countries you went to on your 18 month holiday?

Dan Balcauski 34:22

Yeah, well, I blog regularly on my website at ProductTranquility.com trying to demystify this world with pricing for everyone else. You can also connect with me on LinkedIn at Dan Balcauski. I'm always happy to connect with folks there.

Jason Knight 34:36

Excellent. I'll link it in and put it in the show notes and hopefully you'll get a few people coming over and finding out all about this value based stuff. Well, that's been a fantastic chat, obviously really appreciate you taking the time and sharing some of your thoughts and experience. Hopefully we can stay in touch but, as for now, thanks for taking the time.

Dan Balcauski 34:51

Thanks so much, Jason. I really enjoyed it.

Jason Knight 34:55

As always, thanks for listening. I hope you found the episode inspiring and insightful. If you did, again, I can only encourage you to pop over to OneKnightInProduct.com, check out some of my other fantastic guests, sign up to the mailing list or subscribe on your favourite podcast app and make sure you share with your friends so you and they can never miss another episode again. I'll be back soon with another inspiring guest but, as for now, thanks and good night