PRICING AND VALUE

# Value-Based Pricing

*Anderson · Ramanujam & Tacke · Skok*

PAPER 02 / 02

A Furtherance reference compendium on the intellectual traditions behind organisational design, leadership, execution, and culture.

> **IN THIS PAPER**
> The series closes on the discipline of value itself — quantifying it, designing products around it, and governing it in recurring-revenue models. The question it answers: how do you turn "price to value" from a slogan into a repeatable practice?

Anderson makes B2B value measurable and communicable; Ramanujam and Tacke design the product around the price by testing willingness-to-pay first; Skok governs pricing and growth through the unit economics of recurring revenue.

## James Anderson Value Propositions in Business Markets, 2006

*B2B customer value management*

**CORE THESIS**

In business markets, price to **demonstrated and documented value**. Build value propositions on the value drivers that matter most — using **resonating focus**, the one or two points of difference of greatest worth — and quantify them in the customer's own terms.

**FRAMEWORK**

| Type of value proposition | What it claims |
| --- | --- |
| All benefits | Everything the offering does (weakest — benefit assertion) |
| Favourable points of difference | Where we beat the alternative |
| Resonating focus | The one or two differences worth most to the customer |
| Value quantification | Value word equations, documented in customer terms |

**METHODOLOGY**

Business-market research on how value is created, quantified and communicated.

**SIGNIFICANCE AND CRITIQUE**

The rigorous school of B2B value quantification. The critique: doing it well is data-intensive and requires customer collaboration.

## Ramanujam & Tacke Monetizing Innovation, 2016

*Willingness-to-pay first · Simon-Kucher*

**CORE THESIS**

**Design the product around the price**, not the price around the product. Most innovations disappoint commercially because **willingness-to-pay** is tested too late — so have the price conversation early, and let it shape what you build.

**FRAMEWORK**

| Failure type | What went wrong |
|---|---|
| Feature shock | Too many features, muddled value, mispriced |
| Minivation | A real innovation priced far too low |
| Hidden gem | Value the firm never recognised or monetised |
| Undead | A product customers never wanted at any price |

The remedy: test willingness-to-pay early, segment by need and value, and choose the **monetisation model** and price before committing to the build.

**METHODOLOGY**
Practitioner research across thousands of monetisation cases.

**SIGNIFICANCE AND CRITIQUE**
Reframed pricing as an input to product design rather than an afterthought. The critique: the register is practitioner, drawn from consulting cases.

## David Skok **SaaS Metrics · forEntrepreneurs, 2010–**

*Recurring-revenue unit economics*

**CORE THESIS**
For recurring-revenue businesses, pricing and growth must be governed by **unit economics**. Lifetime value against acquisition cost, payback period, and churn decide whether growth creates or destroys value — and pricing tiers should track a real value metric.

**FRAMEWORK**

| Metric | Healthy signal |
|---|---|
| LTV : CAC | Lifetime value at least ~3× acquisition cost |
| CAC payback | Acquisition cost recovered within ~12 months |
| Churn / net revenue retention | Low churn; expansion offsetting losses |
| Value metric | Price scales with the value the customer receives |

**METHODOLOGY**
A practitioner and venture-capital synthesis of SaaS unit economics.

**SIGNIFICANCE AND CRITIQUE**
The standard mental model for SaaS pricing and unit economics. The critique: it is specific to recurring-revenue models and needs adaptation elsewhere.

## Synthesis

| Contribution | Focus | Key idea | Best fit |
|---|---|---|---|
| **Anderson** | Value quantification | Resonating focus; document value | B2B markets |
| **Ramanujam & Tacke** | Monetising innovation | Design around the price | New products |
| **Skok** | Unit economics | LTV:CAC; payback; churn | Recurring revenue |

**FOR THE OPERATOR**

Value-based pricing becomes a practice when value is measured, designed for and governed — quantifying and documenting B2B value (Anderson), designing the product around a tested willingness-to-pay (Ramanujam & Tacke), and governing pricing through recurring-revenue unit economics (Skok). For the operator: quantify the value you create, let price shape the product rather than trail it, and hold growth to its unit economics. That closes the Pricing and Value series.