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Pricing Strategy and Unit Economics

WHAT WILL WE COVER TODAY?

- Finance Landscape
- Deep dive on pricing
- Startup pricing journey
- Unit Economics
- Avoid common pitfalls
- Some best practices
- Pricing Strategies
- Investors perspective

MAPPING THE COHORT

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Industry Segment	Business Model	Customer Segment
Wealth and Investment Tech Blockchain Lending and Financing Edtech Gen AI Payments	Services Social Platform SaaS Marketplace API Platform PaaS	B2B B2C & B2B B2C

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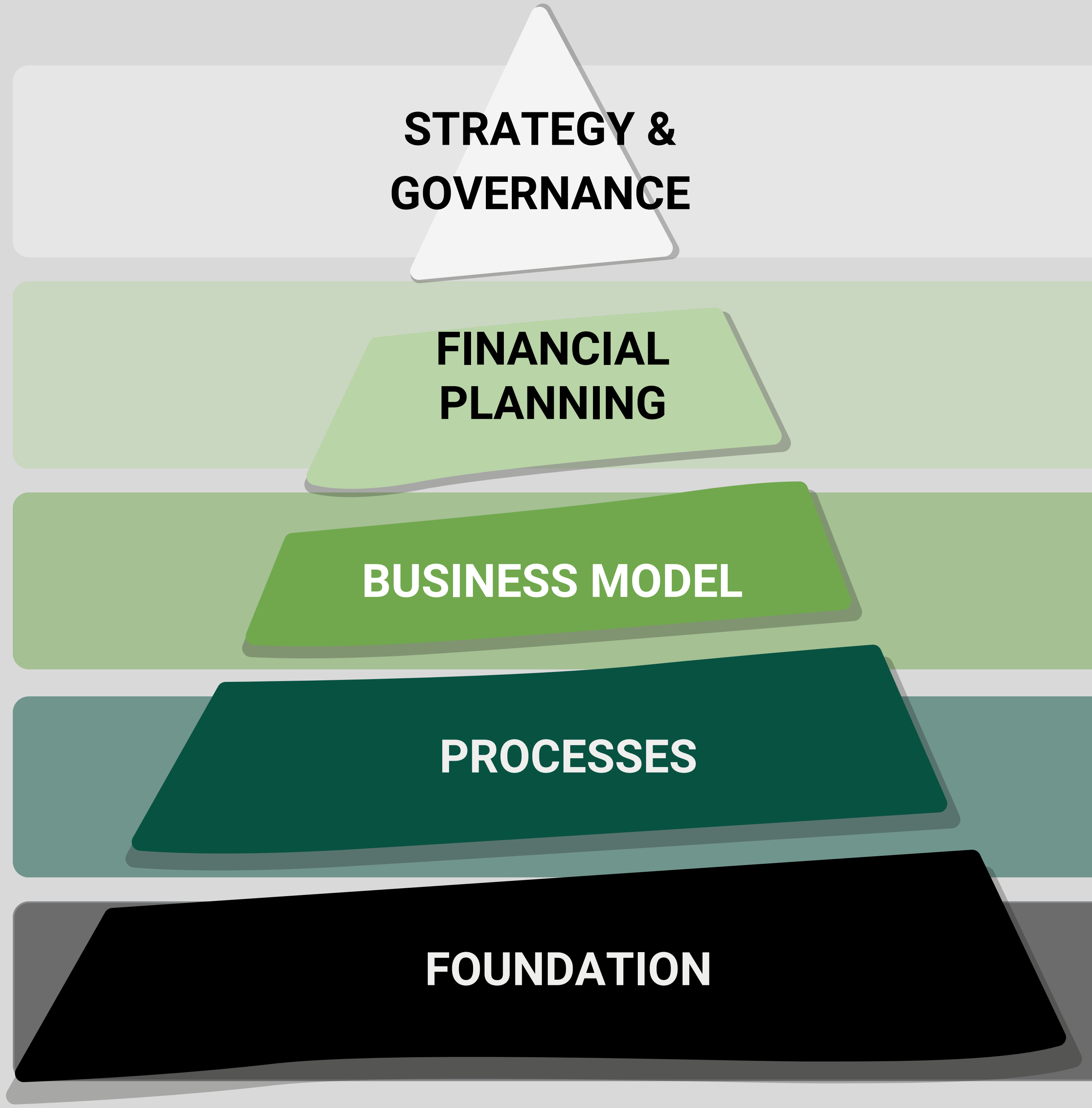
THE CFO OFFICE PYRAMID



- Board Communication
- Strategic Research, Review & Benchmarking
- Dashboards & Performance Management

- Business Plans Reviews
- Financial Projections & Cashflow Forecast
- Pricing, Sensitivity & Scenario Analysis

- Business Plan, Business Model
- Unit Economics
- Working Capital Modeling

- Month close process
- Inventory check and control
- Policies and procedures

- Compliances
- Book Keeping
- Audits

THE CFO OFFICE PYRAMID

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STRUCTURE OF FINANCIAL BLUEPRINT

Strategic

- Future Roadmap
- Business Strategy
- Marketing Strategy
- Pricing Strategy
- Operational Strategy

Operational

- Key Assumptions
- Revenue Build Up
- Unit Economics
- Manpower Buildup
- Key Spans & Metrics
- Projected Cost Structure
- Projected Financials
- Fund Flow
- Balance Sheet
- Projected CAPEX

USING PRICING TO WIN

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- Price to the value what customer perceive and not the cost
- Your pricing determines acquisition strategy and sales cycle
- Innovation pricing is always hard and ensure you focus on early adopters. Growth pricing is a different ball game
- Understand the relation between cost, price and value
- Your pricing will define your target customer
- Dont press the volume button until you understand the optimal price
- Keep increasing the price by 5% until you see a pushback in volume
- Understand the pricing vs complexity of your product / Service

WHY IS PRICING IMPORTANT?

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- For many entrepreneurs, pricing is an afterthought, as innovation is their raison d'etre.
- Failing to incorporate pricing in the innovation process can often result in failed or commercially underperforming innovations.
- Early-stage startups rely heavily on pricing strategies to shape unit economics, a pivotal factor determining long-term financial succes

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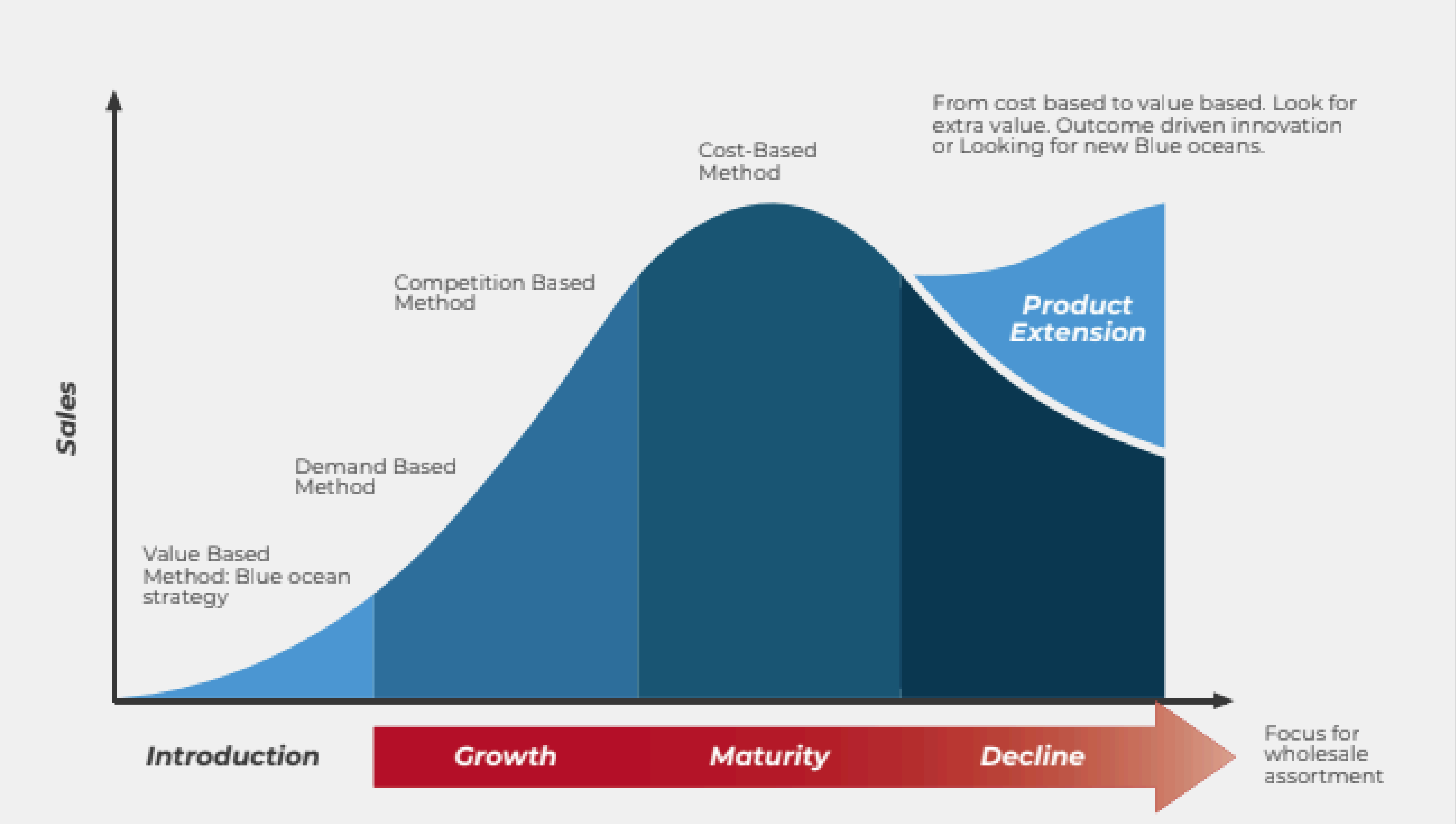
Pricing at early stages is more of an art than a science

PRICING FRAMEWORKS



Industry Lifecycle

- In the early stages, price is determined by the value perceived by the customer.
- In the growth stages, price is determined by external factors like demand and competition
- In the late stages, once the product has reached maturity, pricing can become cost based.

Source: Symson (2023)

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THE STARTUP PRICING JOURNEY

Stage 1 → **Stage 2** → **Stage 3** → **Stage 4** → **Stage 5**

Stage 1
Finding the product-market fit

Company is focused on figuring out what customers want and how to deliver it

Stage 2
Finding the right revenue model

Company needs to decide how its pricing model is going to grow with its customers

Stage 3
Segmentation of the customer base

Market is growing; company needs a pricing model that scales with customer size and sophistication

Stage 4
Drive cross-sell of multiple products

Business is taking off; there is a product line and business diversification

Stage 5
Optimize prices and processes

Company is focused on figuring out what customers want and how to deliver it

Source: Simon + Kucher & Partners

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KEY BENEFITS OF HAVING THE RIGHT PRICING

Lever of growth

Right pricing means target market is reached more effectively.

Communicate value

Appropriate pricing strategies are important to signal a fair value.

Stabilizing unit economics

Pricing should ensure a positive result in the profit formula for better scalability.

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WHAT TO CONSIDER WHEN PRICING?

Willingness to pay

Understand the opportunity cost the customer is willing to bear to use your product/service

Segmentation

One size does not fit all

Product

Pricing should communicate the benefit of using the product

Value communication

Price needs to be a sales enabler not a sales confiner

Monetization model

“How to price?” is as important as “what to price?”

Market structure

Price can also be determined by the structure of the industry you operate in (monopoly, oligopoly, monopolistic and so on)

Behavioral pricing

Consumer behavior should always be factored in

Pricing integrity

Brand integrity needs to be maintained, while accounting for changing business/macro environment.

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FACTORS THAT COMMONLY DRIVE THE DELAY OF PRICING EXERCISES

Adoption at all costs: Founders primarily tech focused or product focused always give priority to adoption rather than the right price

Multidiscipline: Implementation of pricing exercise requires support and iteration across organization

Light data: Lack of data at early stages makes it even tougher to identify a right pricing exercise

Pricing is a moving target: Primarily driven and guided by WTP (willingness to pay), pricing target changes as the product evolves, matures and customers gain more as the value proposition is being delivered

WHY DOES PRICING MATTER AND IS QUICKEST FOR VALUE CREATION ?

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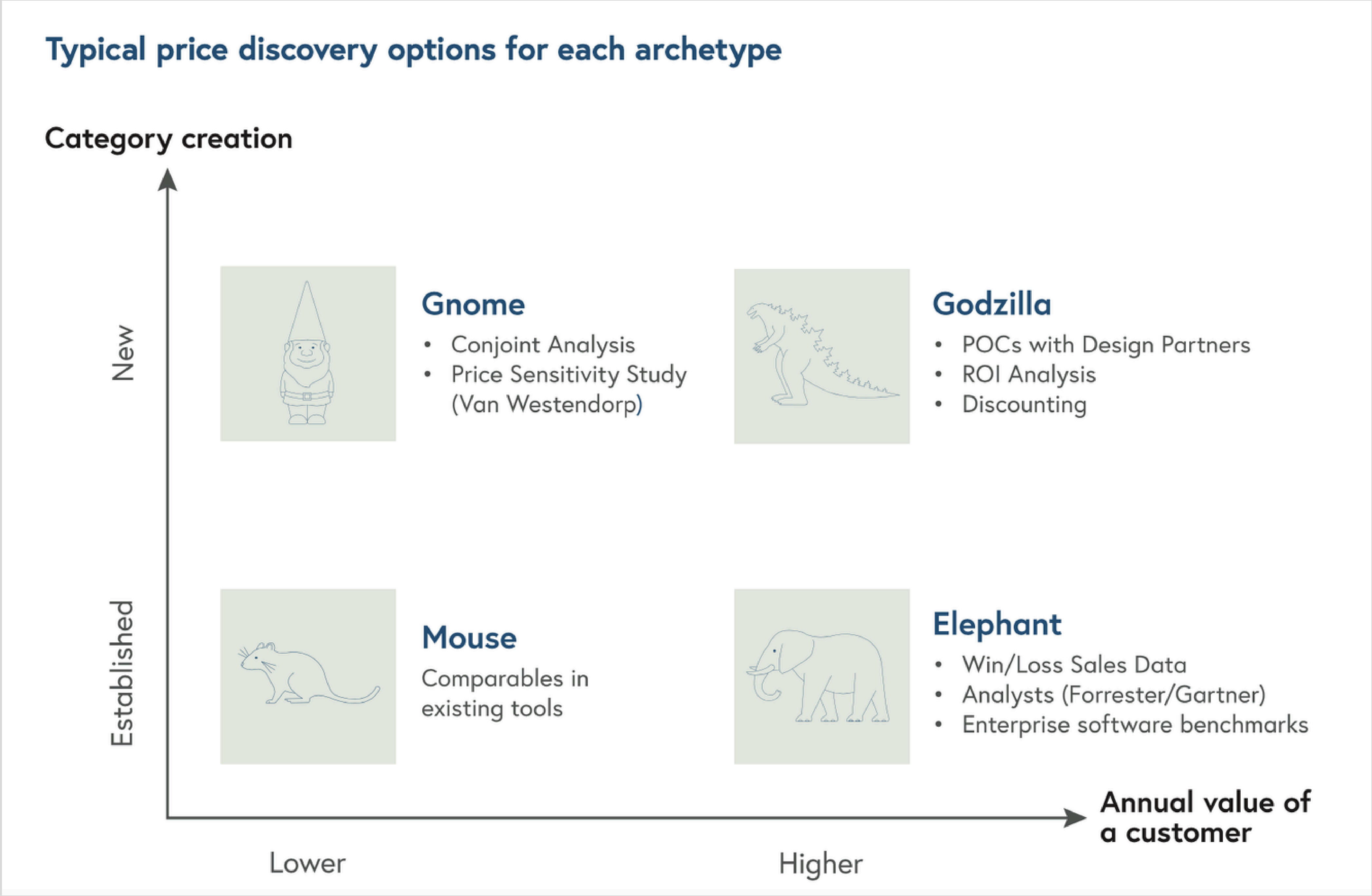
Other ways companies can create value but will take a lot of time

- Better products
- New Logo expansion
- Strong Renewals
- New Demand generation
- Channel Partners

PRICING DISCOVERY

- Price discovery is just another way of describing the process through which companies explore their customers' or potential customers' willingness to pay (WTP)

- Price discovery is best identified with a matrix of Market Maturity and Annual Customer Value



Source: Simon + Kucher & Partners

PRICING MODELS IN FINTECH STARTUPS

White-Label Solutions

Cross-Selling

Freemium

Subscription Services

Transaction Fees

Lending Services

Affiliate Marketing

Data Monetization

Advertising

API Access Fees

CHALLENGES IN PRICING MODELS

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- Regulatory Compliance
- Customer Acquisition Costs
- Thin Margins
- Liquidity Management
- Payment Gateway Cost
- User Education
- Monetization Models
- Data Security and Privacy
- Cross Border Transactions
- Balancing Financial Inclusion and Profitability

KEY TAKEAWAYS ON SETTING THE RIGHT PRICE STRATEGY

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- Platform and Audience
- Valuation Impact
- Global Considerations
- Pricing Tiers
- Experimentation Matters
- Utilize Tools
- Trial and Error

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CREATING A SUSTAINABLE PATH IN FINTECH WITH SOLID UNIT ECONOMICS

Understand Revenue Streams and Cost Structure

- Conduct detailed financial analysis.
- Gain a thorough market understanding.

Monitor Key Metrics Regularly

- Track CPA, LTV, and payback period.
- Monitor customer retention rates and churn.

Continuously Optimize Your Business Model

- Test new marketing strategies.
- Introduce new products/services.
- Negotiate better deals with vendors.

Tools and Resources for Analyzing Unit Economics

- Financial modeling software.
- Business intelligence tools.
- Industry benchmarking reports.

UNIT ECONOMICS

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Unit economics is the financial analysis of the revenue and costs associated with a single unit of a product or service

WHY UNIT ECONOMICS PROFITABILITY MATTERS

- Sustainable Growth
- Attracting Investors
- Reduced Dependency on Funding
- Flexibility and Adaptability

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HOW CAN YOU FIND THE UNIT ECONOMICS IN FINTECH?

Understand Revenue and Costs

- Identify revenue and costs per unit.
- Separate fixed (e.g., rent, salaries) and variable costs (e.g., marketing, transaction fees).

Assess Profitability

- Determining the Gross Profit : Revenue generated by a single unit- COGS
- Determining the Net Profit: Revenue generated by a single unit- all expenses (COGS and Fixed Costs)

Customer Metrics

- Determine Customer Acquisition Cost (CPA): Total acquisition cost ÷ New customers.
- Determine Customer Lifetime Value (LTV): Avg revenue per customer × Avg customer lifespan.
- Determine Payback Period: CPA ÷ Monthly revenue per customer.

UNIT ECONOMICS- LENDING STARTUP

- Net interest margin
- Expected default rate for a certain product
- Average cost of servicing a loan
- Customer Acquisition Cost (CAC)
- Loan underwriting efficiency (how fast can you get credit)
- Number of active unique loan customers
- Number of new unique loan customers per month
- NPA % as a percentage of AUM
- Number of installs

UNIT ECONOMICS- SAAS STARTUP

- CAC
- Churn Rate
- LTV
- CLV
- Average Customer Lifetime
- Number of customers and transactions

UNIT ECONOMICS- MARKETPLACE STARTUP

- Average Order Value
- Take Rate (percentage of the revenue that the marketplace captures for its service in facilitating the transaction)
- Average Order Frequency
- Contribution Margin
- CAC
- LTV

KNOW YOUR MENTOR

Sriram Chidambaram

Education

CGMA from CIMA

Fellow Certified Management Accountant from the ICWAI

Qualified Company Secretary from the ICSI

EGMP from IIM-Bangalore

Experience

Founder and CEO at Srf Capital Studio

VP of finance at E4E, a US based IT/ITeS multinational

Head of finance at MAS Holdings, one of the world's largest garment manufacturers.

Industries

Management Consulting

IT & ITeS

Manufacturing

WHAT DOES SRF CAPITAL STUDIO OFFER?

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I

II

III

CFO Services

Our CFO office service, enables us to provide hands-on support for companies needing help in managing transactions, financial reporting and staying on top of unit economics

Advisory Services

Our advisory services bring strategic leadership to your finance function and is a key part of your top management till the time you need a new CFO.

Consulting

Our consulting services are short term engagements that ensure quick turnarounds and implementation of strategic initiatives.

OUR PRACTICE AREAS