

# MONETIZING INNOVATION

How Smart Companies Design the Product Around the Price | Madhavan Ramanujam & Georg Tacke

## CORE THESIS: "Design the Product Around the Price"

Have willingness-to-pay (WTP) conversations with customers *before* building the product—not after. 72% of new products fail because companies postpone pricing to the end of development.

### THE 4 INNOVATION FAILURES

#### Feature Shocks

Too many features, overpriced, unclear value

#### Minivations

Right product, wrong price—underpriced

#### Hidden Gems

Brilliant ideas never launched properly

#### Undeads

Products nobody wants (e.g., Segway)

### THE 9 RULES FOR SUCCESS

1. **Have the WTP talk early**—validate pricing before development
2. **Don't default to one-size-fits-all**—segment by WTP
3. **Configuration & bundling is science**—Leaders/Fillers/Killers
4. **Go beyond the price point**—how you charge matters more
5. **Strategic pricing**—maximize, penetrate, skim, or neutral
6. **From hoping to knowing**—business cases with WTP data
7. **Communicate value clearly**—innovation won't speak for itself
8. **Use behavioral pricing**—anchoring, framing, decoy effects
9. **Maintain price integrity**—avoid reflexive discounting

### WTP RESEARCH METHODS

- ▶ **Direct Questions:** "Acceptable? Expensive? Prohibitive?"
- ▶ **Purchase Probability:** Scale 1-5 willingness at price X
- ▶ **MaxDiff:** Identify most/least valued features
- ▶ **Build-Your-Own:** Design ideal product at a price
- ▶ **Conjoint:** Test feature-price combinations

### KEY FRAMEWORKS

#### Leaders, Fillers, Killers

- **Leaders:** Features customers value AND pay for
- **Fillers:** Nice-to-have, add perceived value
- **Killers:** Features that reduce WTP—eliminate!

#### 5 Monetization Models

Subscription | Dynamic pricing | Market-based | Freemium | Usage-based

#### Pricing Strategy Options

- **Maximization:** Capture maximum value now
- **Penetration:** Low price to build share
- **Skimming:** High then decrease over time
- **Neutral:** Match competition

### PRACTICAL APPLICATIONS

- ▶ **Porsche Cayenne:** Designed around WTP—validated before engineering; became 50% of profits
- ▶ **Gillette Guard (India):** 15 rupee target drove design; 60% market share in 2 years
- ▶ **LinkedIn Talent Solutions:** WTP research shaped premium tier—drives majority of revenue
- ▶ **Uber:** Innovative pricing (surge, subscription) enabled massive scale

### FINAL TAKEAWAYS

- ▶ Price reflects *perceived value*, not just a number
- ▶ Flip the process: **Market → Price → Design → Build**
- ▶ Early WTP conversations prevent all 4 failure types
- ▶ Look at WTP distribution, not just averages
- ▶ Cross-functional alignment (product, sales, marketing, finance) is critical
- ▶ Maintain price integrity post-launch—don't reflexively discount

*"The root of all innovation evil is the failure to put the customer's willingness to pay at the very core of product design."*