Our Agenda

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Our Agenda

01 / Introductions

02 / What is Customer Benefit Analysis?

03 / Fullcast Case Study

04 / Q&A

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Welcome

Jason Tanner

- Former software product manager
- 17+ years of Scrum & Agile
- 9+ years Marine Infantry Officer
- CEO and Certified Scrum Trainer® (CST)

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What's the price?

Setting the price is <u>more</u> than choosing a number.
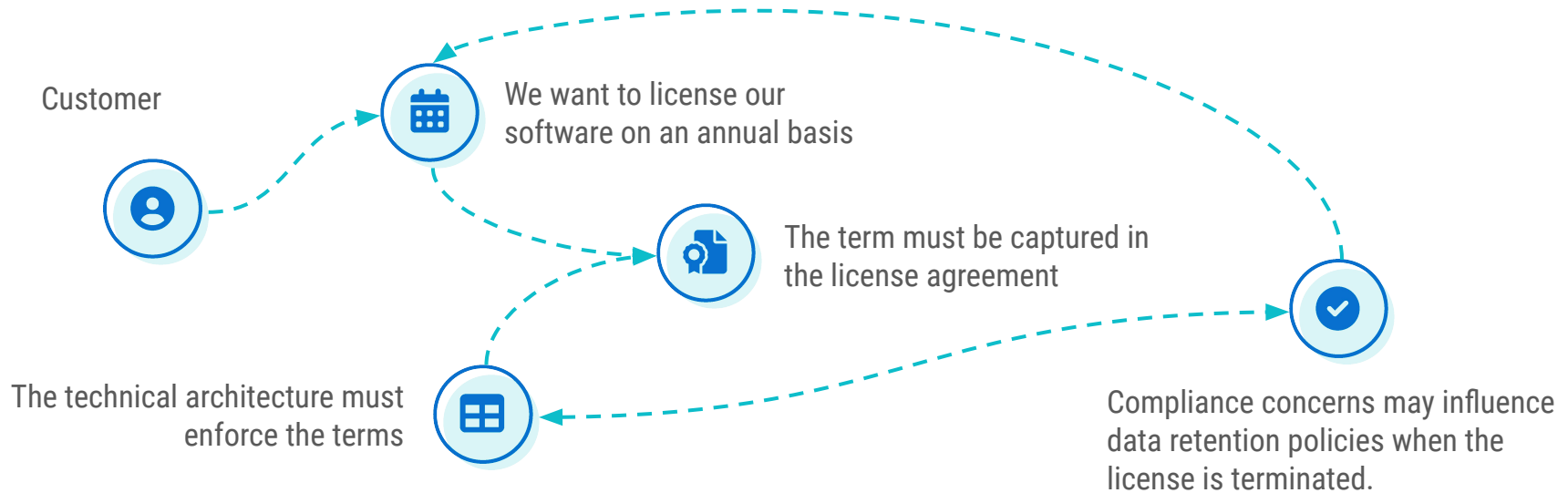
A software business model is a <u>system</u>.

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Systems Thinking

Designing a sustainable **Software-Enabled Solution (SWES)** involves making *-and remaking-* a system of interdependent choices.
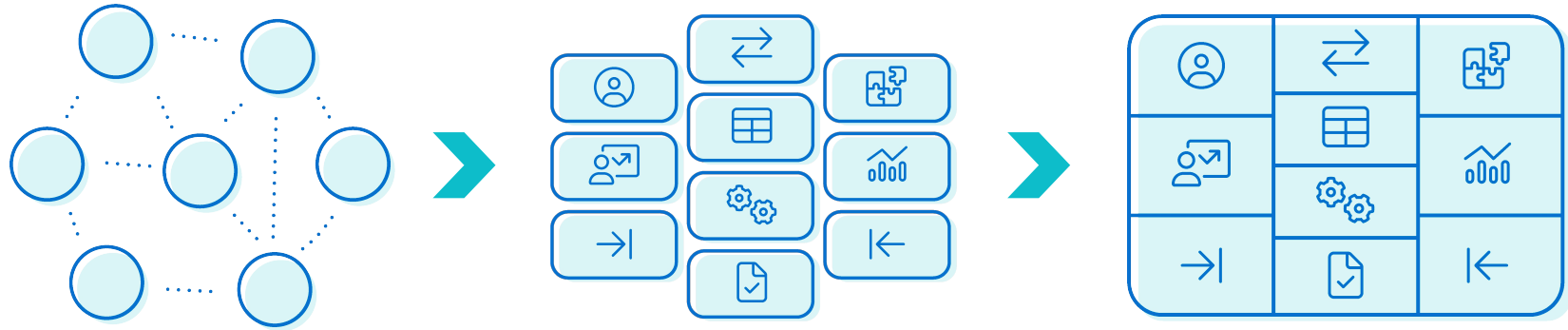
Systems Thinking

Customer

We want to license our
software on an annual basis

The term must be captured in
the license agreement

The technical architecture must
enforce the terms

Compliance concerns may influence
data retention policies when the
license is terminated.

The choices we make can be captured as a set of nodes and relationships.
Our path through this system is dynamic.

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By organizing the elements of our system as a canvas we create a highly compact representation that promotes **holistic innovation, collective wisdom, and collaboration.**

Profit Streams are a type of Value Stream

A value stream is a sequence of activities that an organization executes to design, produce, deliver, and as needed, maintain and/or extend a solution to a customer.

Profit Streams are a type of Value Stream

Profit Streams must…

✓ Quantify the **economic value** of the solutions they create…

✓ Be sold through **pricing** and **licensing** choices that…

✓ Ensure the **revenue** generated from these solutions exceed the **costs** required to serve customers…

✓ **Not just once, but over time.**

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Profit Stream Design integrates three aspects of sustainability, all of which are interdependent and evolve over time.
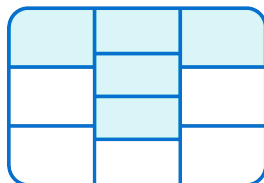
SOLUTION
SUSTAINABILITY

ECONOMIC
SUSTAINABILITY
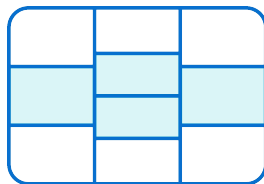
RELATIONSHIP
SUSTAINABILITY

The Profit Stream Canvas is organized to help you manage the choices you will make as you design your Profit Streams.
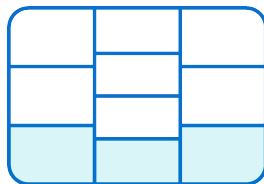
Solution Sustainability
Delivering value to your customer over time.

Economic Sustainability
You are making a profit. Your customers assessment of value is greater than their total cost of ownership.

Relationship Sustainability
How are you designing long-term relationships that benefit all stakeholders?

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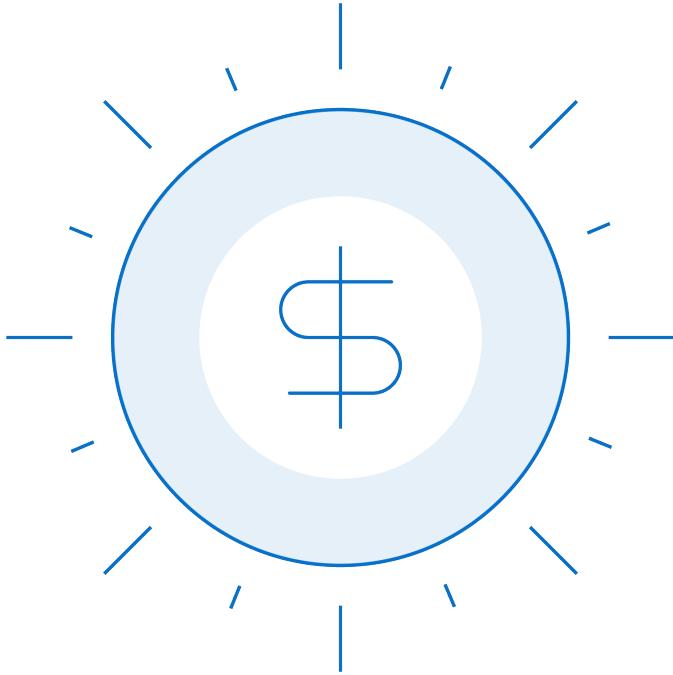FRAMEWORKS

The Profit Stream™ Canvas

Customer
What does my customer value?
+ Hard / Tangible
+ Soft / Intangible

What might my customer pay for this?

Value Exchange
How do I 'trade value for money'?
Annual license? transaction?

Solution
What are the ways I can provide value to my customers?

What are the features / (other) I can provide / create?

Customer ROI
Is this sustainable for my customer?
+ TCO vs. Benefits

Is it better than competing or alternative offers?

Pricing
How much money will this cost?
What is the Price?
+ Strategy
+ Structure
+ Specifies
+ Policies

Solution ROI
Is this sustainable?
+ Costs
+ Revenue

Improvements over time?

Profit Engine
How do I design/engineer a sustainable business?

Customer Licenses
What are the Terms and conditions of the use of the solution?
+ Rights / Restrictions

Are they fixed? Negotiated?

Compliance
How do I maintain / honor my relationship with external stakeholders?
(societal stakeholders)
+ GDPR, FERPA, HIPAA, COPEA

Solution Licenses
What are my in-licenses?
How do I manage them?
How do they impact my model?

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The Profit Stream Pricing Model

The Profit Stream Pricing Model

Uses Systems Thinking to identify and manage all aspects of a value-based approach to pricing that **maximizes profit** over time.

The Profit Stream Pricing Model

STRATEGY

Price Strategy defines how you intend to compete and position your product

The Profit Stream Pricing Model

Price Structure drives pricing by different segments and solution attributes

STRATEGY

STRUCTURE

Price Strategy defines how you intend to compete and position your product

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The Profit Stream Pricing Model

Price Structure drives pricing by different segments and solution attributes
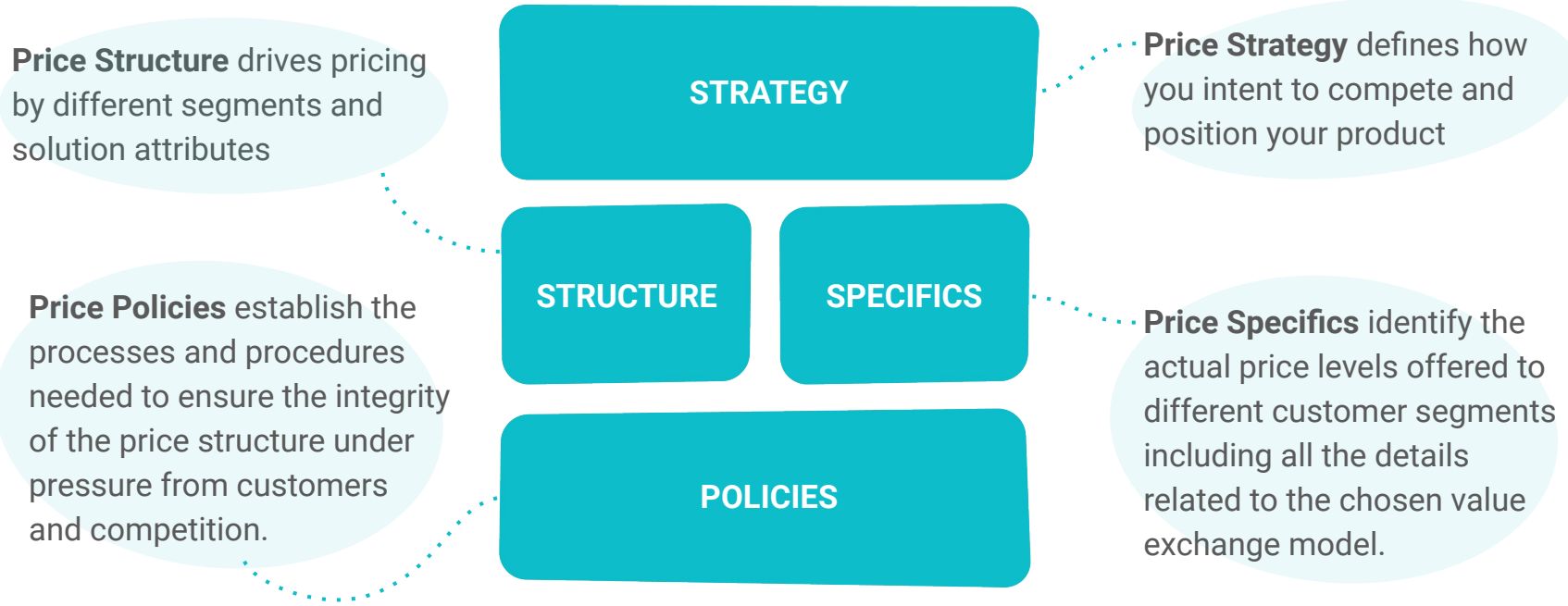
STRATEGY

STRUCTURE

SPECIFICS

Price Strategy defines how you intend to compete and position your product

Price Specifics identify the actual price levels offered to different customer segments including all the details related to the chosen value exchange model.

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The Profit Stream Pricing Model

Price Structure drives pricing by different segments and solution attributes

STRATEGY

Price Strategy defines how you intent to compete and position your product

STRUCTURE

SPECIFICS

Price Policies establish the processes and procedures needed to ensure the integrity of the price structure under pressure from customers and competition.

POLICIES

Price Specifics identify the actual price levels offered to different customer segments including all the details related to the chosen value exchange model.

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Price Structure in Depth

Price Structure is constructed with **Price Metrics** and **Fences.**

A profitable price structure establishes price metrics aligned to value with fair, clearly-defined fences between segments.

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Benefits of this approach...

Aligns with differences in economic value across segments

Accommodates variability of costs to serve each segment

Generates higher revenue from sales when value and/or cost to serve is higher while accepting lower revenue for additional profit from sales when value and/or cost to serve is lower.

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Price Structure is a result of a set of intentional design choices.

Which **customer segments** will I serve?

What **solution attributes** delight each segment?

How will I **exchange** solution value for money?

What **price metric** aligns to my chosen value exchange model?

How will I construct fair & reasonable **fences** between segments?

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Price Metrics

Price Metrics

Are the units to which the price is applied and define the terms of value exchange.

The Price Metric for a cheese burger or veggie burger at your favorite restaurant is the quantity of cheese burgers or veggie burgers ordered.
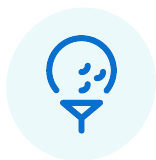
The Price Metric for Zoom's basic corporate video conferencing service is the quantity of named users with access to the service.

Price Metrics

To maximize value delivery and profit, multiple price metrics may apply to the same product or service.

A golf course charges a monthly membership fee (time-based) for access to the course plus an additional fee for renting a cart for each round of golf (transaction).

The price metrics are:

Memberships + Golf Cart Rentals.

Price Metrics Multiple Choice Quiz

What's the price metric?

Price breakdown

$152.31 x 4 nights	$609.24
Cleaning fee	$171.00
Service fee	$110.16
Occupancy taxes and fees	$46.81
Total (USD)	**$937.21**

Your nightly rate plus your optional extra charges (a cleaning fee or extra guest fee, etc.) minus the Host service fee = your received payout.

This fee is calculated by multiplying the total booking amount by a percentage and then is automatically subtracted from your payout. Your guests do pay a service fee to Airbnb in addition to the cost of your listing. So your guest's total price is higher than your payout.

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5 Criteria to Create Price Metrics that Drive Profit

5 criteria to create Price Metrics that drive profit

01

Create a price metric that is…

+   *Easy to implement*
+   *Easy to measure*
+   *Easy to enforce, and…*
+   *Easy to audit.*

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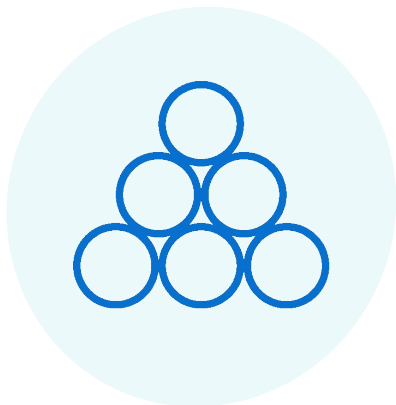# 5 criteria to create Price Metrics that drive profit

02

Ensure your Price Metric supports your competitive differentiation.

As customers evaluate your solution before buying, ensure your price metric aligns to the perception you desire for your solution.

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5 criteria to create Price Metrics that drive profit

03

Ensure the metric functions effectively across segments.

Using different price metrics for different segments creates confusion for potential customers (and for your internal teams like finance)

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5 criteria to create Price Metrics that drive profit

04

Ensure the metric aligns to any differences in cost to serve different customer segments.

Examples:
+ Customer support for North America vs Asia
+ Instead of flat rate, % of purchase price

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5 criteria to create Price Metrics that drive profit

05

Ensure the metric aligns to how buyers experience value from using the product/service.

The magnitude of the purchase combined with WHEN and HOW buyers use the product affect the selection of the price metric.

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Additional criteria may be added based on your context such as regulatory requirements, legal needs, partner relationships, in-licensing, and considerations related to other products in the portfolio.

Fences

Price Fences are policies designed to *prohibit customers in one segment* from purchasing lower-priced solutions designed *for another segment*.

They are usually expressed as fixed criteria that qualify customers for a different, typically lower-priced solution.

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Perceptions of Value
are driven by factors such as:

How the product is used

Different customer **financial models**

Unique alternatives to achieve value

Different psychological benefits

Geographic location

State of customer organization

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Example of Fences

One price for **teachers,** a different price for **military service members,** reduced pricing for **high volume** and standard pricing for **all other customers.**

. . . .

All four types of customers have the same need for the product and similar costs to serve, however they often have different **perceptions of value before buying.**
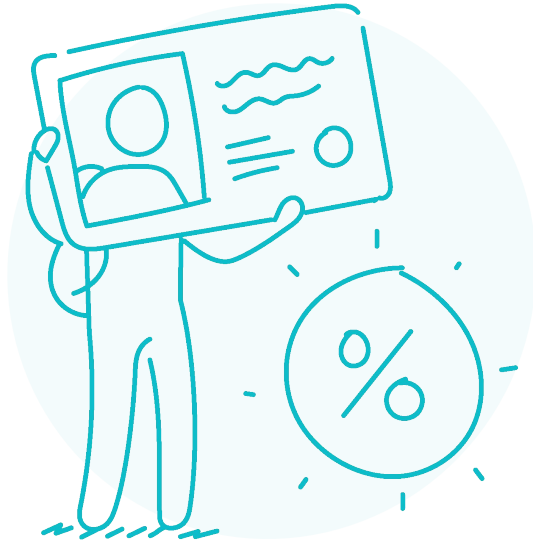
Fences

Provide a mechanism to charge different prices to align to different levels of value and customer context. Controls ensure feasibility and stability of the fences.

Can increase profitability, however they can also create dissatisfaction and cause customers to attempt to overcome the fences to pay a lower price.

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4 Types of
Price Fences

4 types of Price Fences

BUYER IDENTIFICATION

Buyer identification price fences are based on customers self-identifying their membership in a segment, with informal to formal verification processes to confirm membership.

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4 types of Price Fences

PURCHASE LOCATION

Different price levels may be established
for customers purchasing the same product in
different geographic locations.

4 types of Price Fences

TIME-OF-PURCHASE

Time-of-purchase price fences are based on when a customer purchases the solution. An example is a limited duration price fence for hardware that promotes early purchases.

4 types of Price Fences

PURCHASE QUANTITY

Purchase quantity price fences provide discounts to customers who purchase in large volumes.

Applying a Purchase Quantity Fence

> **ORDER DISCOUNTS**   *Apply to the size of a buyer's purchase*

> **VOLUME DISCOUNTS**   *Apply to the a buyer's total purchases of a period of time vs. quantity purchased at any one time.*

> **STEP DISCOUNTS**   *Apply to purchases beyond specified amounts.*

> **TWO-PART PRICING**   *Apply when selling to a new customer incurs an incremental cost while selling more to an existing customer incurs low or no cost.*

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Price Structure is constructed with
Price Metrics and **Fences.**

A profitable price structure establishes price metrics aligned to value with fair, clearly-defined fences between segments.

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What <u>questions</u> can I answer?

Software Profit Streams™

A Guide to Designing a
Sustainably Profitable Business

Written by
Jason Tanner & Luke Hohmann

Designed by
Federico González

Book Available April 4, 2023

https://profit-streams.com/

https://miro.com/miroverse/
customer-benefit-analysis/

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