



# Choosing a Business Model: the Pricing Model

**Seminar 4**

**New Ventures BC Seminar Series**

**April 27, 2016**



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seminar series

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## 2 ► Some Background



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### 3 ▶ Key Themes for Today

- Pricing is about Value, not Cost
- Value is always Relative to Alternatives
- Value is generated from your Business Model choices  
...your Pricing Model captures that value



## 4 ▶ Value is...

- For the customer  
...has nothing to do with cost of your inputs or how cool you are
- Relative ...to an alternative  
(there is always an alternative – even if it is ‘doing nothing’)
- An Emotional (qualitative values) decision  
...justified by rational Economic (quantitative) analysis



# ► What is Your Value?

$$\begin{array}{c} \text{Your Company} \\ \text{Benefits/Strengths} \\ - \\ \text{Costs/Weaknesses} \\ \text{(Includes your Price)} \\ \hline = \text{Your VALUE} \end{array}$$



# ► IQ/Rational Benefits create Value

## Financial Changes

- Increase Revenues
- Decrease Costs
- Increase Profits

## Operational Efficiency

- Productivity increase

## Risk

- Reduction/Mitigation
- Safety
- Reputation



# ▶ EQ/Emotional Benefits create Value

## Satisfaction Increase

- Customer
- Employee

## Time saving

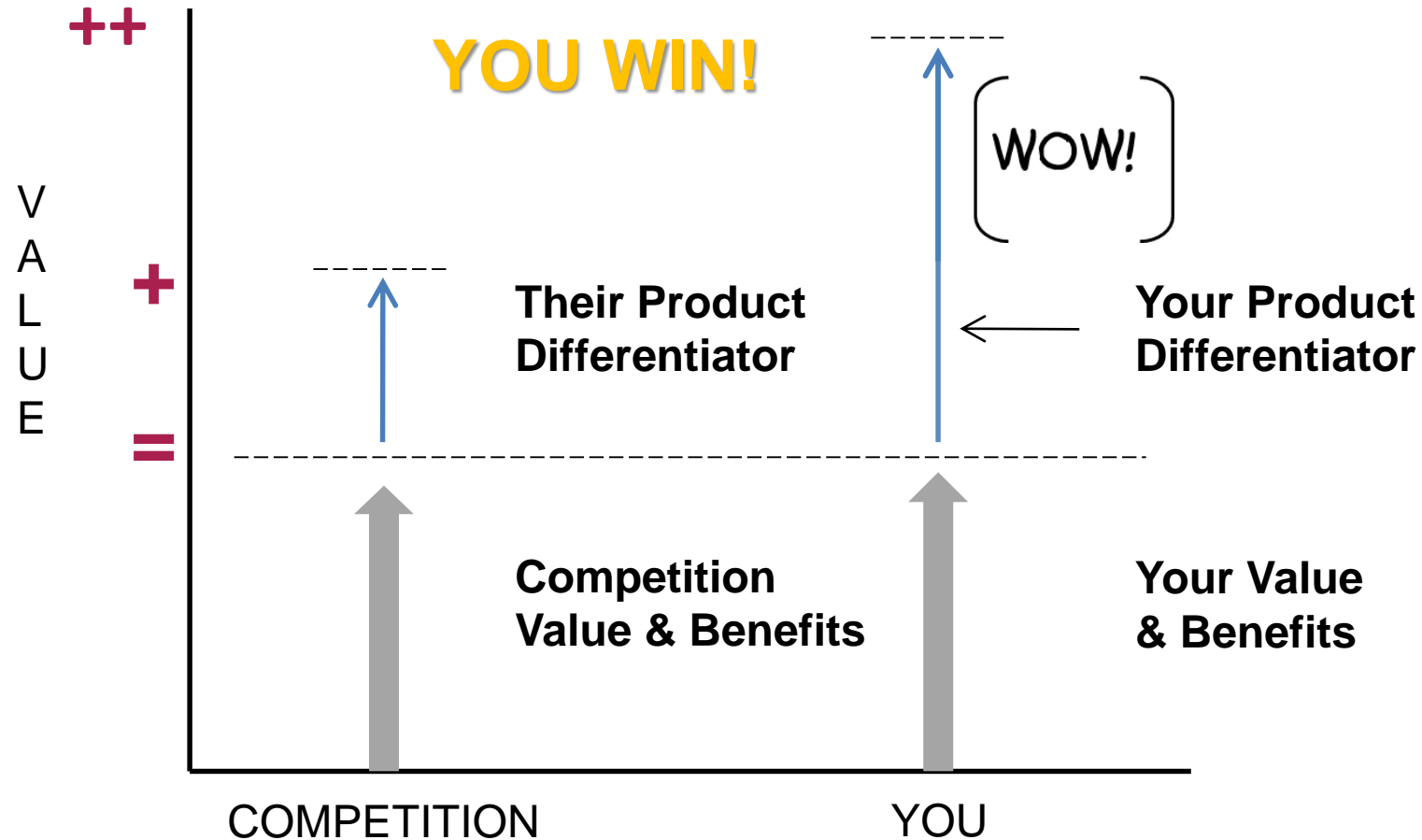
- Ability to Save Time / Convenience – its easy
- Immediacy - now; faster and better

## Relationships & Connections

- Fun / Entertainment increase
- Health & Well Being increase – information; games
- Creative learning increase
- Increase Image / Reputation
- Success & status
- Desirability due to scarcity



# ► What Your Differentiator?





# ► When does a Start-Up Win?

<u>Your Company</u>		<u>The Competition</u>
Benefits/Strengths		Benefits/Strengths
-		-
Costs/Weaknesses (Price)		Costs/Weaknesses (Price)
-----		-----
= Your VALUE		= Their VALUE
Your Company's VALUE	> >	Competitor's VALUE

**Your Differentiator is your 'trump' to  
WIN!!**



# ► View from the Customer

Sources of Customer Value, in descending order of strength:

1. Your Product/Service – Features → Benefits
2. Your Company
3. Your People

Decision Making process by the Buyer, in descending order of strength:

- 1st, Best Differentiated Value
- 2nd, Lowest Price
- 3rd, Lowest Risk

**Conclusion:**  
**as a Startup, the only way to WIN is with superior Product/Service!**



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## ▶ What is a 'Business Model'

- Def: business model

“A Business Model describes the rationale of how an organization creates, delivers and captures value”

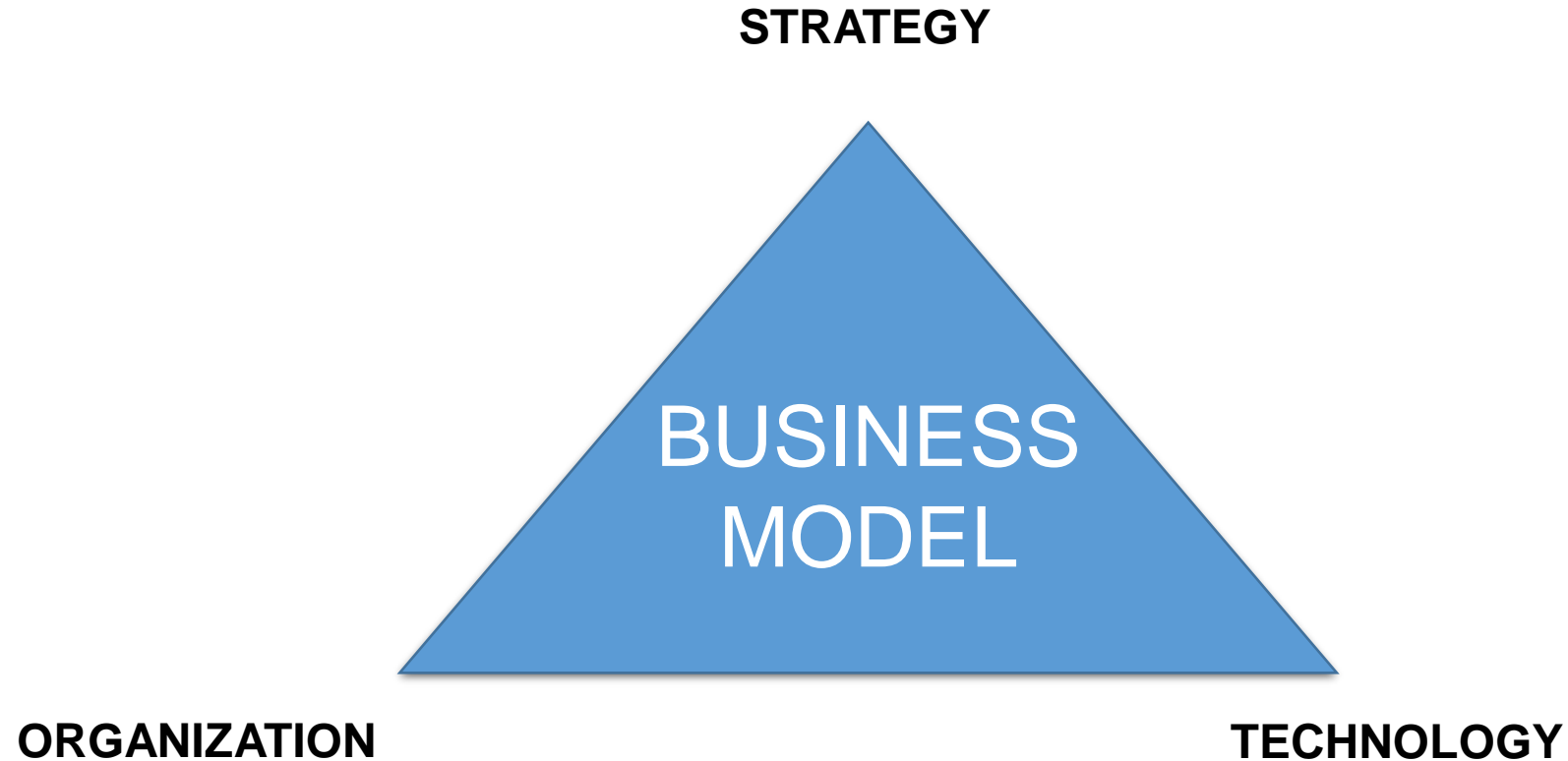


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# The Business Model's Role in the Company



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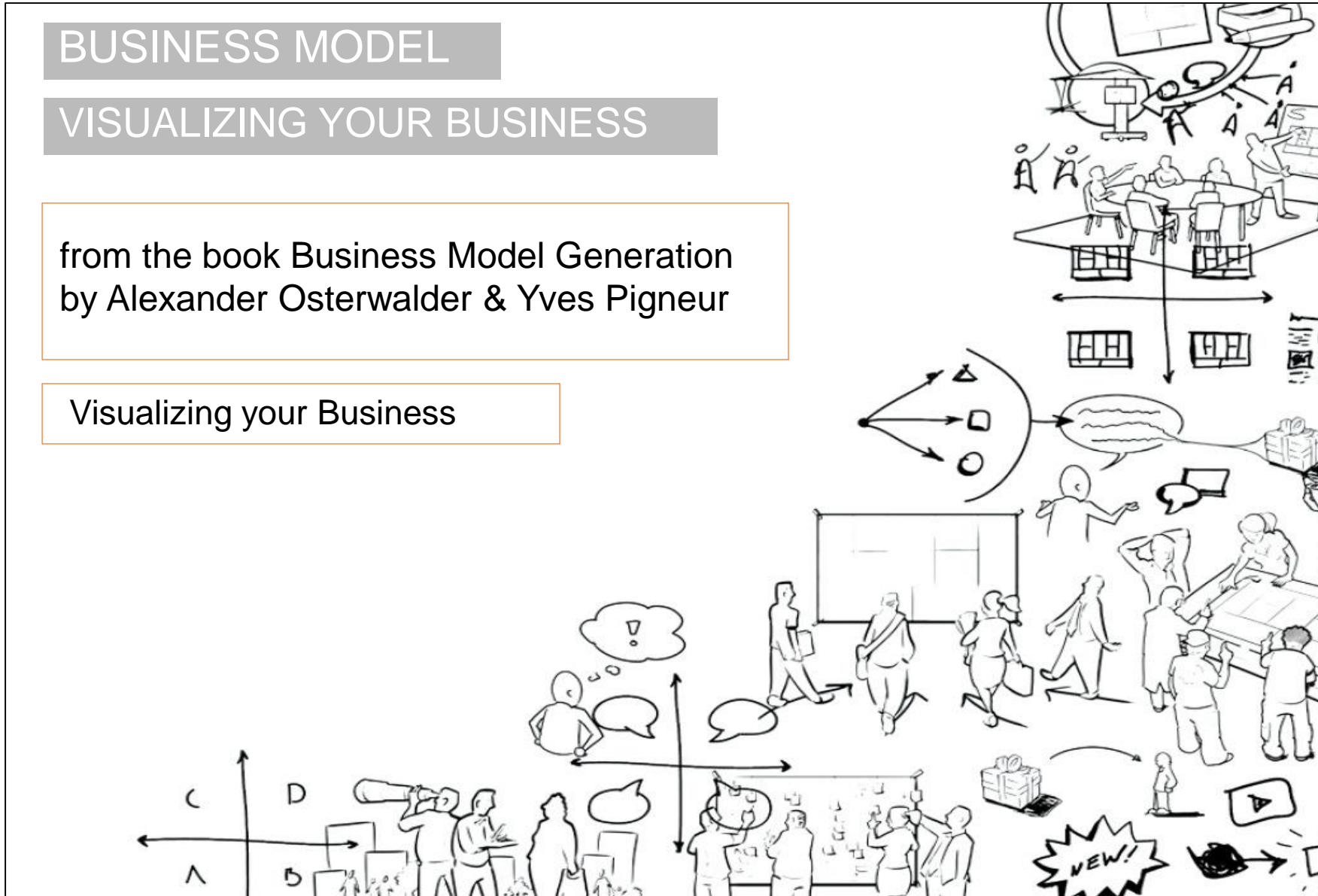
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# BUSINESS MODEL

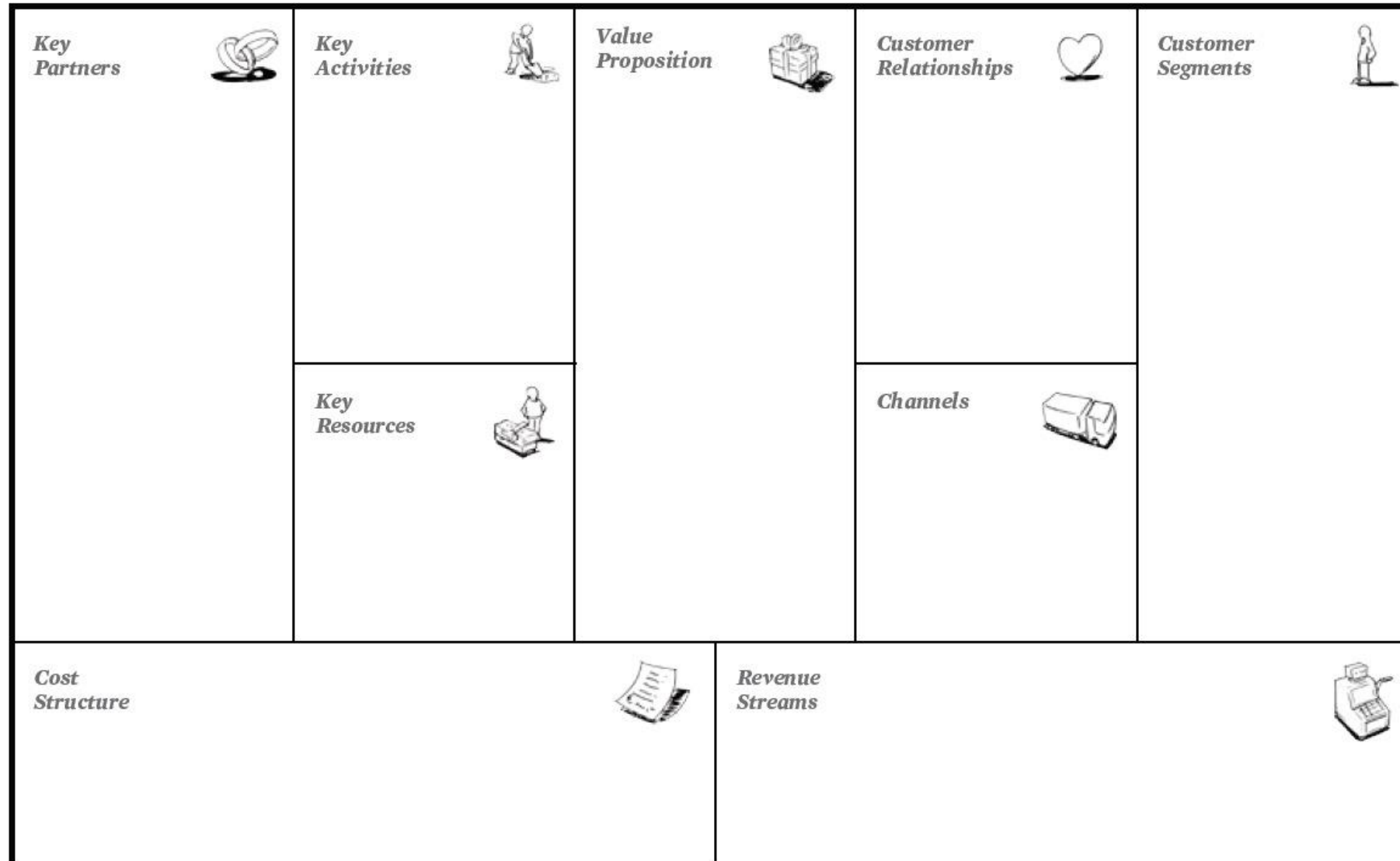
## VISUALIZING YOUR BUSINESS

from the book Business Model Generation  
by Alexander Osterwalder & Yves Pigneur

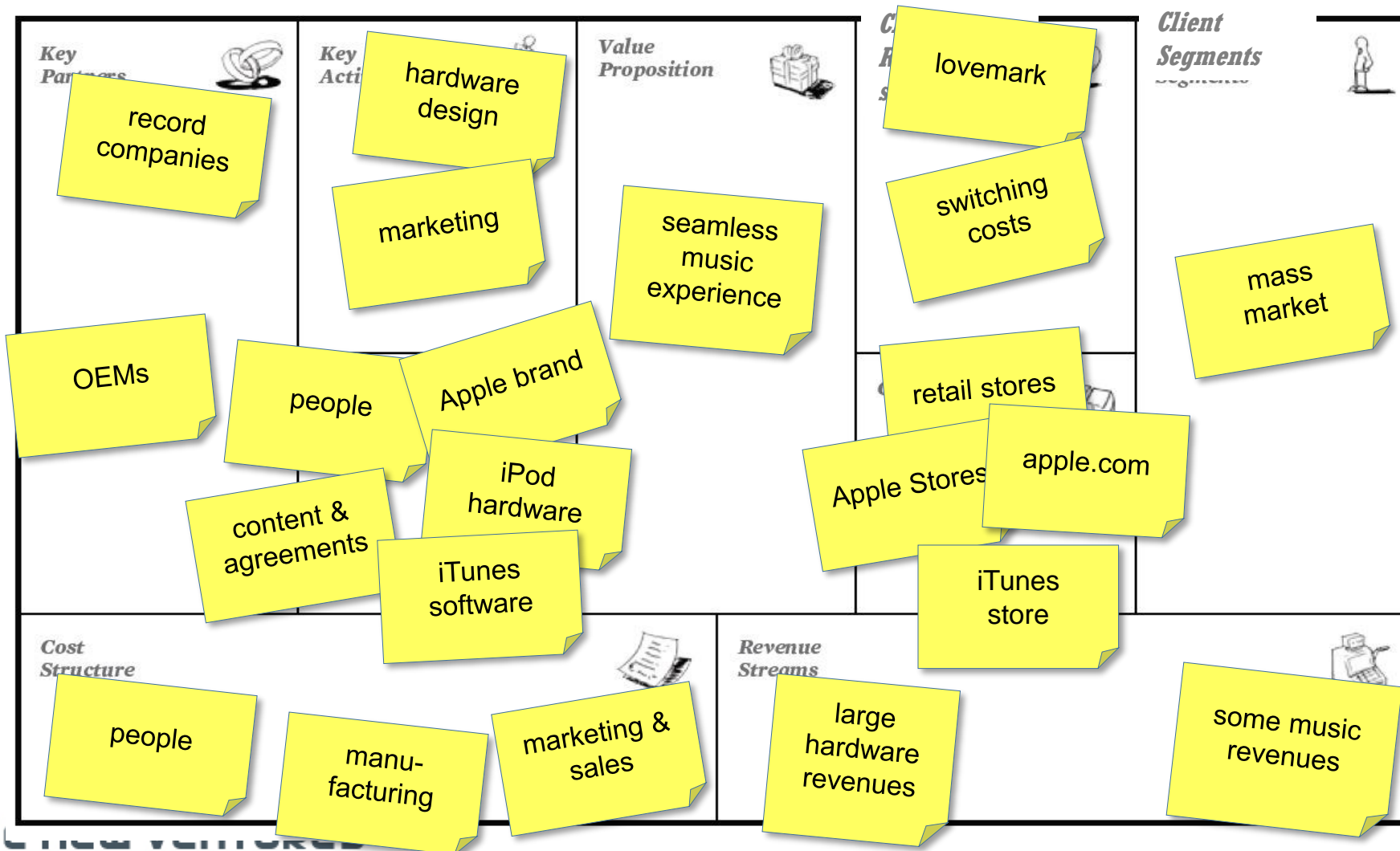
Visualizing your Business



# The Business Model Canvas



# ▶ Apple iPod Business Model





# 1. Customer Segments

## The More Specific the Better!

- For whom are we creating value?
- Who are our most important customers?  
Identify the specific groups of people we want to serve
  - Are their needs the same?
  - Do they reference each other?
  - Can we use the same Channel?
  - Do they all require the same Relationships?
  - Do they generate similar profitability?
  - Do they buy the same aspects of our offer?





# ▶ Markets/Customer Segments

- A Customer Segment is:
  - A set of actual or potential customers,
  - for a given set of products or services
  - who have a common set of needs or wants, and
  - who reference each other when making a buying decision
  - ...and, buy at the same price, channel and purchase volume





## 2. Value Proposition

The more 'WOW' the better!

- Solves a customer problem or satisfies customer need, what's the collection of products/services
  - what value do we deliver to the customer?
    - Newness, performance, customization, completeness, design, brand, price, cost reduction, risk reduction, accessibility, convenience/usability
  - which one of our customer's problems are we helping to solve?
  - which customer needs are we satisfying?
  - what bundles of products & services are we offering to each segment?



## 3. Channels

# The Simpler, the Better!

- Through which channels do our Customer Segments want to be reached?
- How are we reaching them now?
- How are our channels integrated?
- Which ones work best?
- Which ones are most cost efficient?
- How are we integrating them with our customer routines?
- How do we communicate and reach Customer Segments to deliver value?
- What are the customer touch points that play an important role in customer experience (communications, distribution, sales, support)



# 3. Channels (cont'd)

## ... through all of the sales process

# Diagram of the sales process

Sales Process

Channel Types		Awareness: How do we raise awareness about our products and services?	Evaluation: How do we help customers evaluate our Value Proposition?	Purchase: How do we allow customers to purchase specific products and services?	Delivery: How do we deliver a Value Proposition to Customers	After Sales: How do we provide post-purchase customer support?
Own	Direct	Sales Force				
		Web Sales				
		Own Facilities				
Partner	Indirect	Partner facilities				
		Wholesalers				





## 4. Customer Relationships The Stronger the Better!

- Describe the type of relationship we establish with each segment for– acquisition, retention, up-sell, e.g., personal assistance, dedicated personal assistance, self-service, automated service, (user) communities, Co-creation
  - What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
  - Which ones have we established?
  - How costly are they?
  - How are they integrated with the rest of our business model?



## 5. Revenue Streams

### The More Predictable the Better!

- by each Customer Segment – what is the value perpetrated in each segment
  - For what value are customers really willing to pay?
  - For what are they paying?
  - How are they currently paying?
  - How would they prefer to pay?
  - How much does each Revenue Stream contribute to overall revenue?
    - Asset sale, usage fee, subscription fee, lending/renting/leasing fee, licensing, brokerage fee





## 6. Key Resources

### The Fewer, the Better!

- Define the most important assets required to make the business model work
- What resources (physical, intellectual, financial, human) within each Customer Segment are needed to
  - create and offer the Value Proposition?
  - operate our Distribution Channels?
  - maintain our Customer Relationships?
  - earn our Revenue Streams?



## 7. Key Activities

### The Harder to Replicate, the Better!

- What are the most important things to make the model work?
  - E.g., production, problem solving, platform/network operation
- What Key Activities are required for each Customer Segment to
  - create and offer the Value Proposition
  - operate our Distribution Channels
  - maintain Relationships
  - earn Revenue







## 8. Key Partners

### The Closer, the Better!

- The collective network of suppliers and partners that make the model work and alliances to optimize business model, reduce risk or acquire skills/resources
  - Who are our Key Partners?
  - Who are our key suppliers?
  - Which Key Resources are we acquiring from our partners?
  - Which Key Activities do our partners perform?



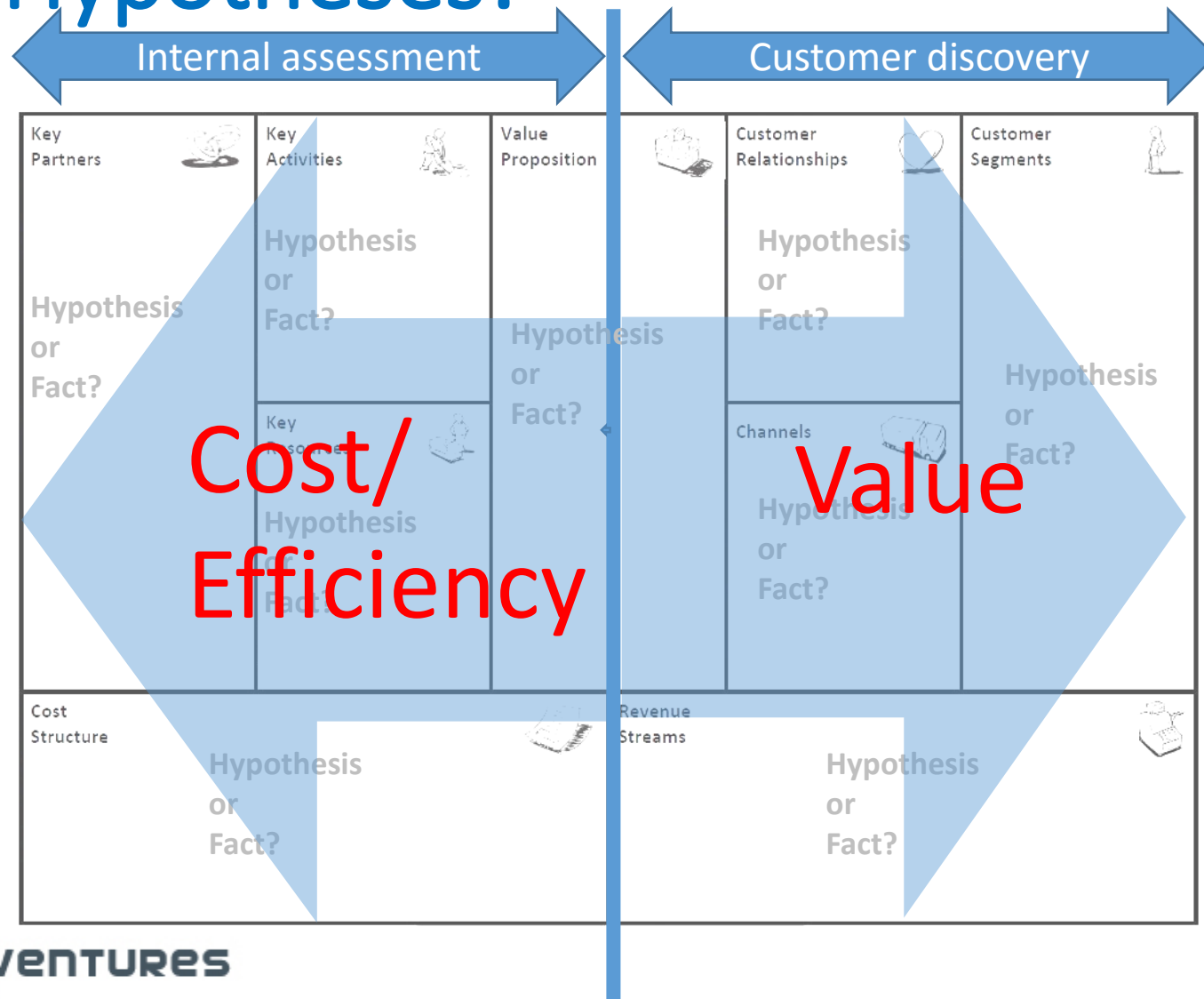
## 9. Cost Structures

### The More Controllable, the Better!

- Describes all costs incurred to operate the model, i.e. creating and delivering value, maintaining customer relationships, and generating revenue all incur costs!
  - What are the most important costs inherent in our business model?
    - Fixed costs?
    - Variable costs?
    - Economies of scale?
    - Economies of scope?
  - Which Key Resources are most expensive?
  - Which Key Activities are most expensive?

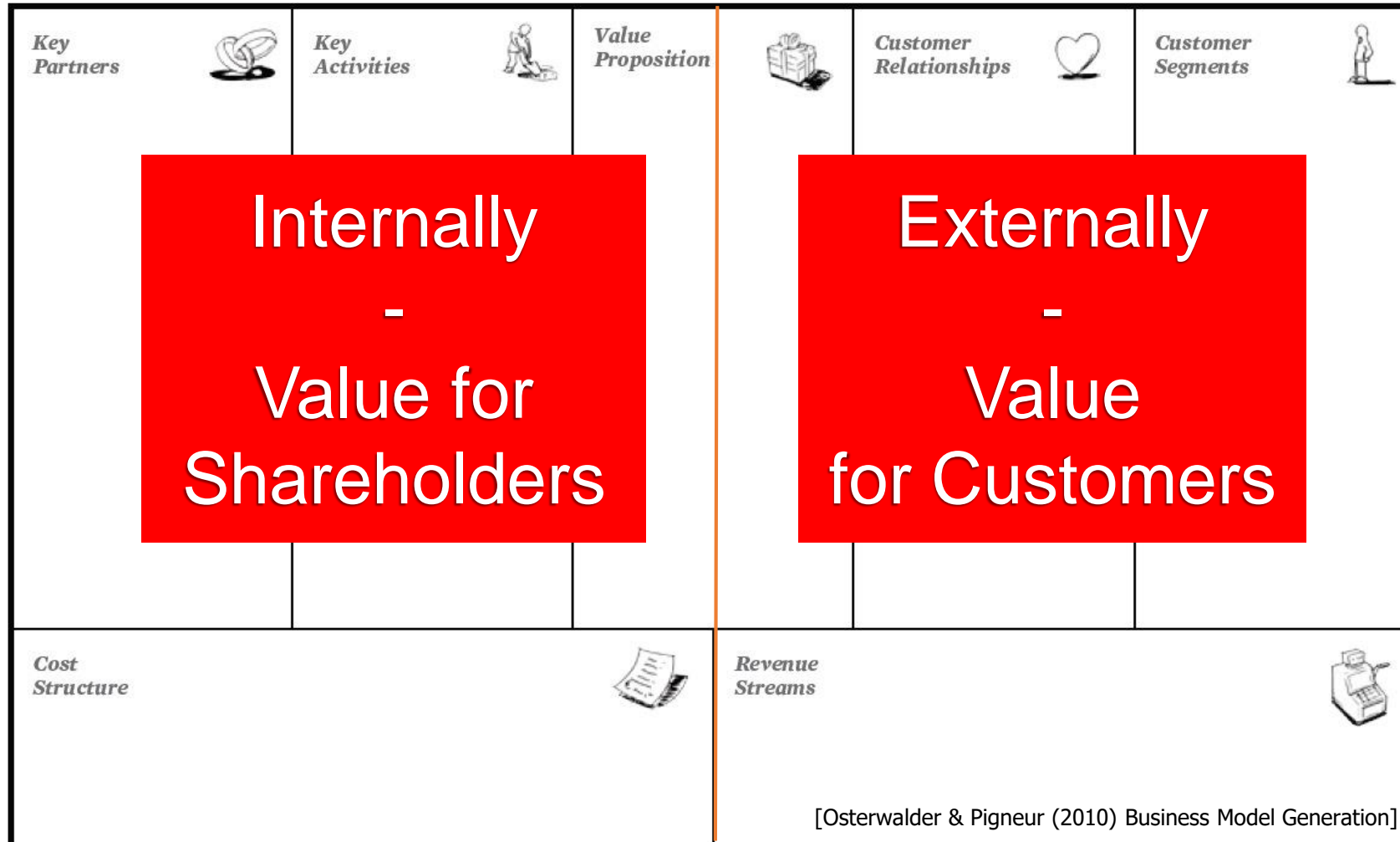


# 27 ▶ Validate Hypotheses!



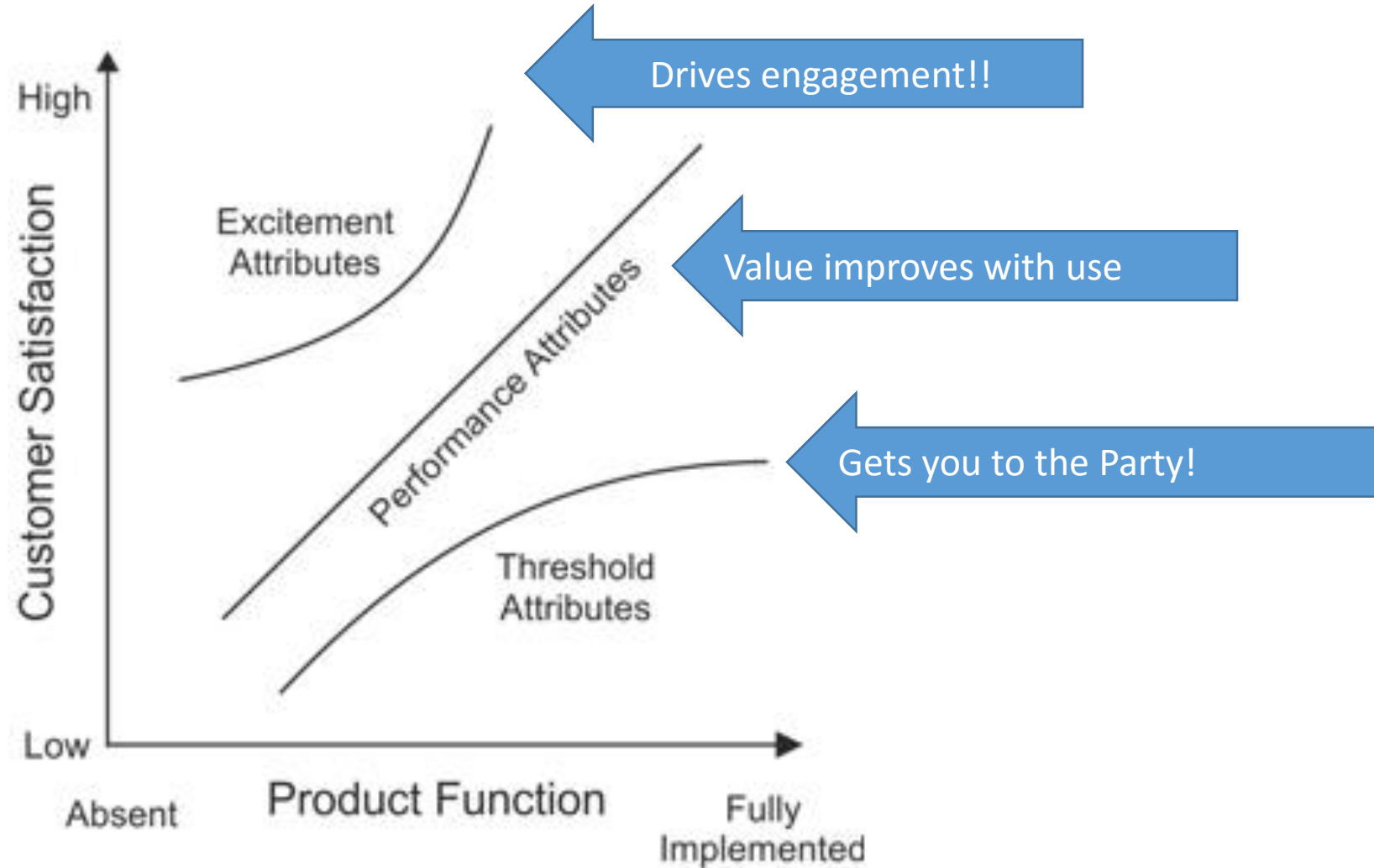
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# ▶ Continuously look to Improve Value



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# ► Consider the Kano Model



# Pricing is not just about picking a number

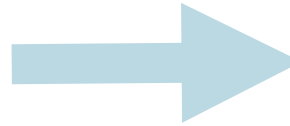
Pricing is based on:

1. Understanding value provided to customer
2. Segmenting the target market on how and how much value is provided
3. Identifying the value metric and finding a pricing metric
4. Building a set of offers and prices for **each** segment targeted



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# ▶ Gallons of paint or square feet covered?

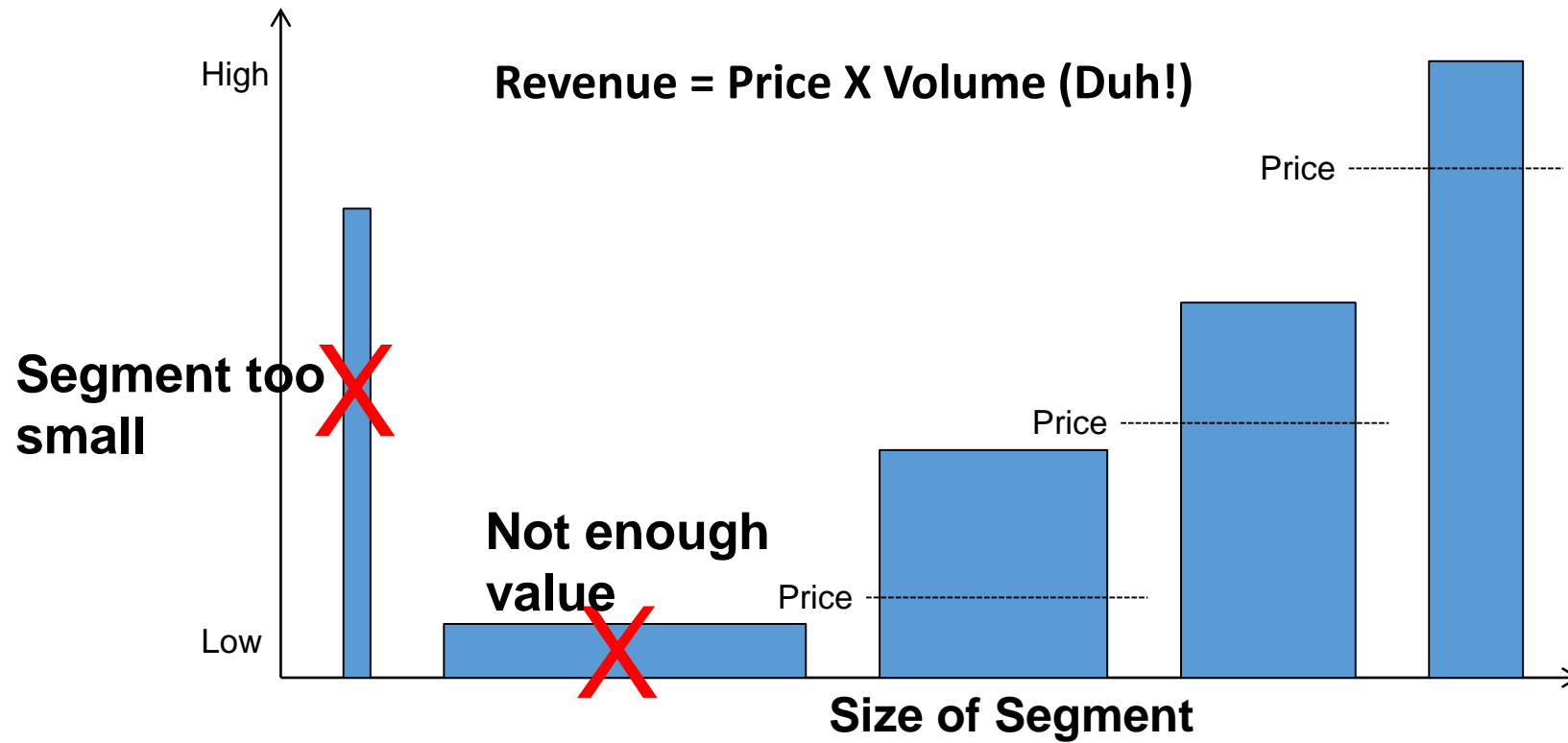


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# Segmenting & Targeting Value & Size



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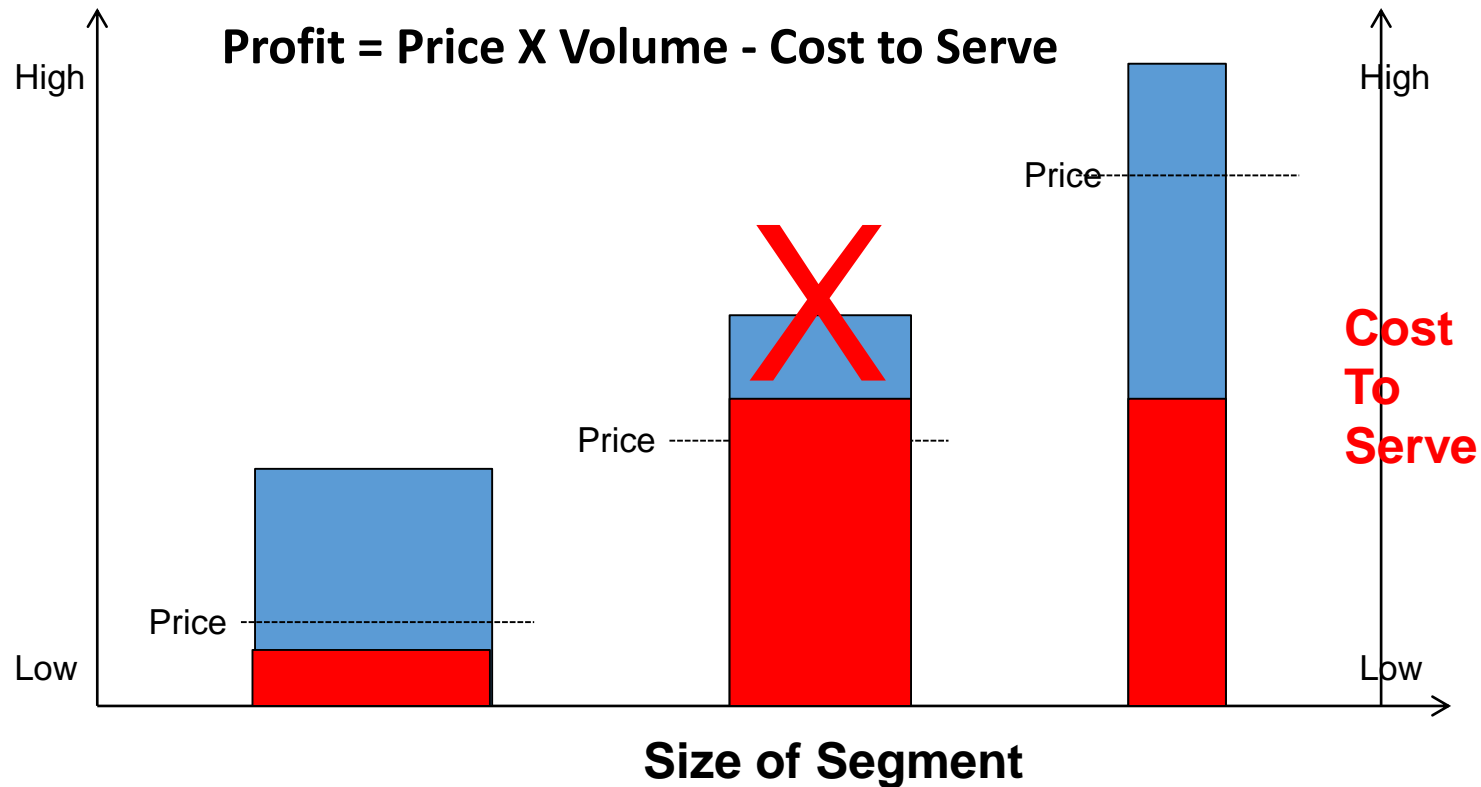
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# Segmenting & Targeting

## – Cost to Serve



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# Revenue Streams

## The More Predictable the Better!

- |                                |                             |
|--------------------------------|-----------------------------|
| ▪ \$\$ per unit                | Asset sale, Project fee     |
| ▪ \$\$ per unit of use         | Usage fee                   |
| ▪ \$\$ per time period         | Subscription fee            |
| ▪ \$\$ per use or unit of time | Lending/renting/leasing fee |
| ▪ % of revenue earned          | Licensing/royalty           |
| ▪ \$\$ per transaction         | Brokerage fee               |
| ▪ \$\$ per person-hour         | Professional services       |



## ▶ Early-Stage Pricing Checklist

- Disruptive or sustaining? Why?
- What part of the adoption cycle are you trying to sell to?
- Do you understand how different types of customer get value?
- Have you used that understanding to segment the market?
- Have you crafted an offer for a specific segment?
- Do you know your value metric for that segment?
- Have you found a pricing metric that tracks the value metric?  
(and makes it hard for incumbents to attack you)
- Do you know what pricing factors effect you?  
(and do you have a plan to enhance the positive, eliminate the negative)
- What is your whole product solution? What will you bundle?
- Have you decided on a pricing strategy? Why?  
(skim, penetrate, market following)
- Does your pricing strategy align with your go-to-market strategy? How?
- For software, how will you leverage a 'free' offer?



## ▶ How much Customer Value?

- by each Customer Segment –
  - For what value are customers really willing to pay?
  - For what are they paying?
  - How are they currently paying?
  - How would they prefer to pay?
  - How much does each Revenue Stream contribute to overall revenue?



## ▶ Key Themes for Today

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# ► Questions???

Thank you!!

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## ► Some Resources

- [Professional Pricing Society on LinkedIn](#)
- [The SaaS Pricing Page Blueprint](#) by Patrick Campbell
- [LeveragePoint Blog](#) a good source of current information on value modeling
- Steven Forth posts on [OpenView Labs](#)

