

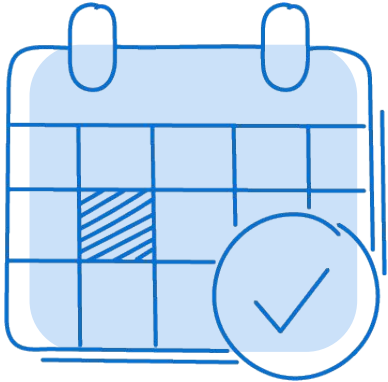


Applied
Frameworks

What is a Profit Stream?

Jason Tanner & Marc Danziger | November 30, 2023

Agenda



01 / The evolution of value streams to profit streams

02 / Software Profit Streams & Systems Thinking

03 / Quantifying value

04 / The Profit Stream Pricing Model

05 / What to do and what not to do



Let's get started, ready? **Go!**

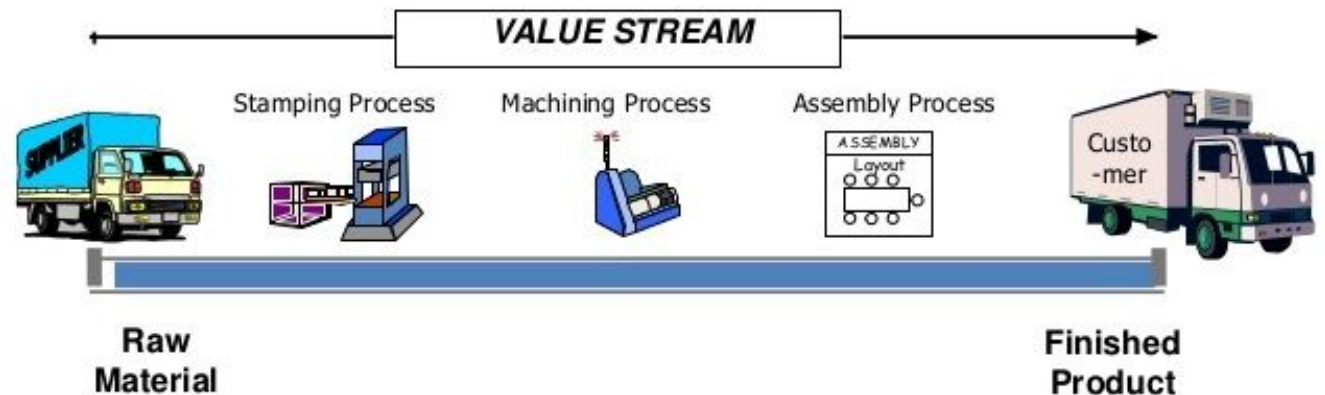


What is a value stream?

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

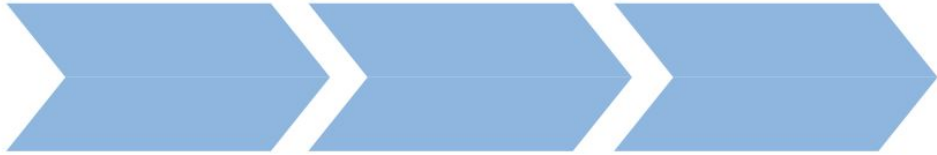
Value Streams are everywhere!

They define everything from buying milk to a new couch, upgrading the software in your car to recycling your old smartphone.





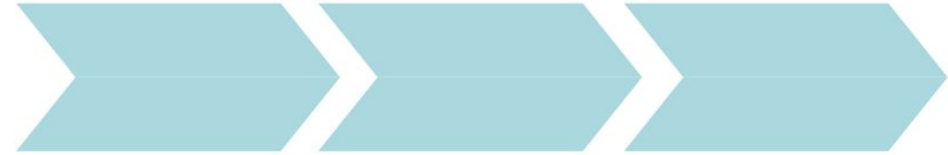
Value Streams and SAFe®



Operational Value Streams

Operational Value Streams (OVS) define how a customer interacts with the enterprise. The sequence of activities involved in the value stream are commonly drawn as boxes or chevrons that capture the flow of work.

OVS ARE USED TO MODEL VALUE



Development Value Streams

Development Value Streams (DVS) capture the 'behind the scenes' activities that support and/or create some or all of the solutions offered to a customer.

DVS ARE INPUTS INTO COST MODELS

PROFIT STREAMS ARE USED TO MODEL PROFIT!



Operational vs. Development Value Streams

Operational

- Fulfillment of an order from the website to the dealership.
- Process to schedule & complete a routine maintenance.

Development

- Design & build the powertrain.
- Design & build the Porsche Financial Services solution.





Software Profit Streams



Profit Streams are the evolution of value streams

A Profit Stream is a value stream designed to create a sustainable business.
This means that a Profit Stream 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



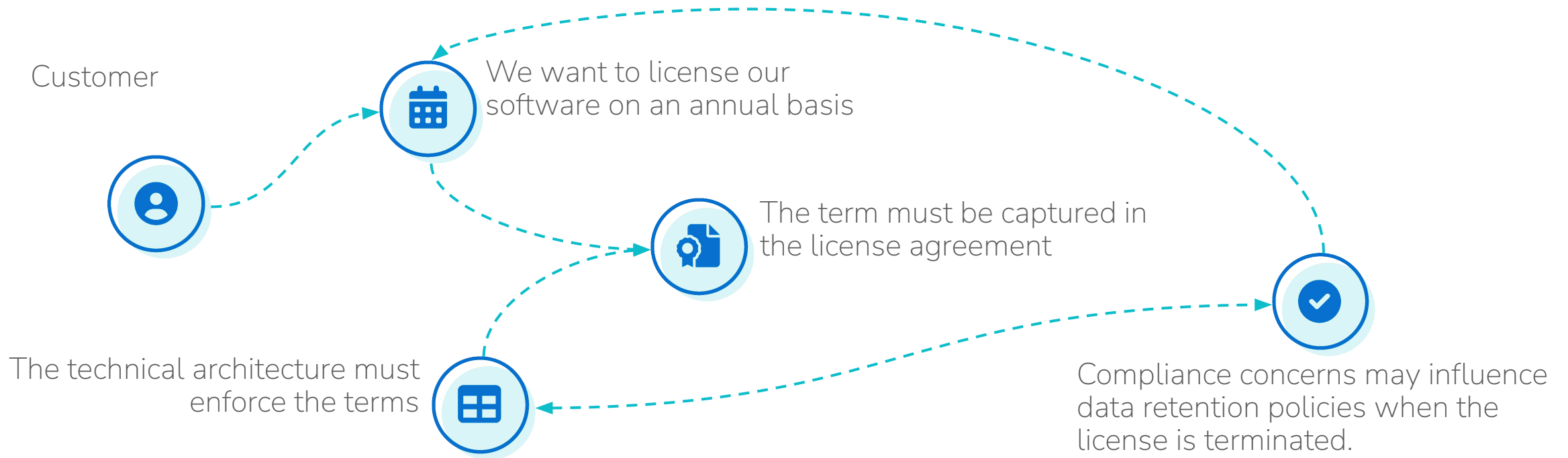
A software
business model
is a system.



Systems Thinking

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

Systems Thinking Applied



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



Quantifying Value



Our Definition

value (n): *benefits a customer receives, less the price the firm extracts*

Value >> **Price**
(\$, €)



Customer Benefit Analysis is a structured process designed to answer two key questions:



What dimensions of our solution provide benefit to our customer?



What is the magnitude of these benefits to your customer?



Understanding value: Tangible benefits

#1 consideration for B2B, B2P and some B2C purchases

B2B Example: Purchase EV trucks

- Reduce fuel consumption costs
- Government tax credits & rebates

Understanding value: Intangible benefits

Brand and other intangible psychological benefits

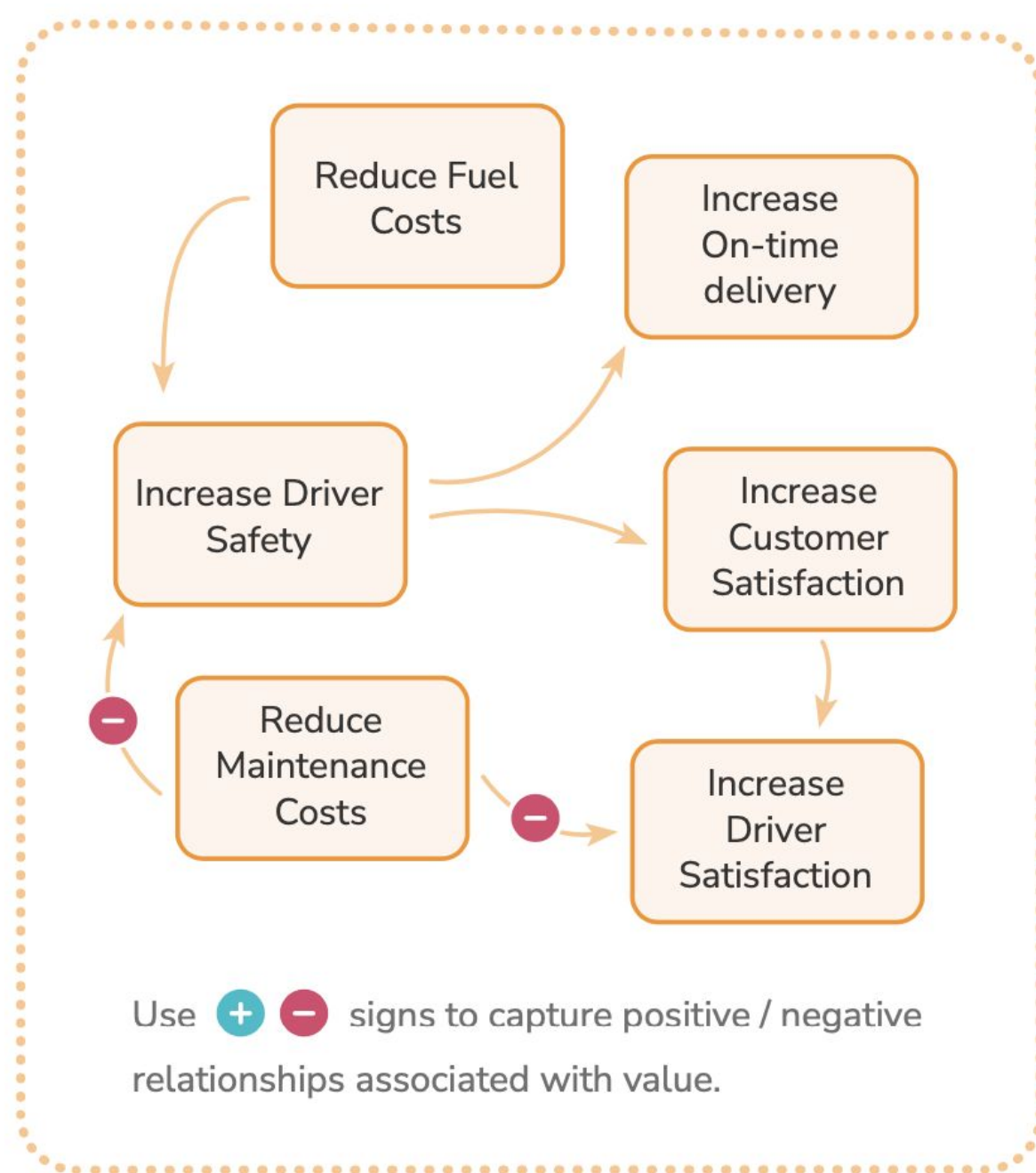
#1 consideration for many B2C purchases

B2C Example: Apple Watch

- Associate with a luxury brand
- “Cool” factor



Value is also a system

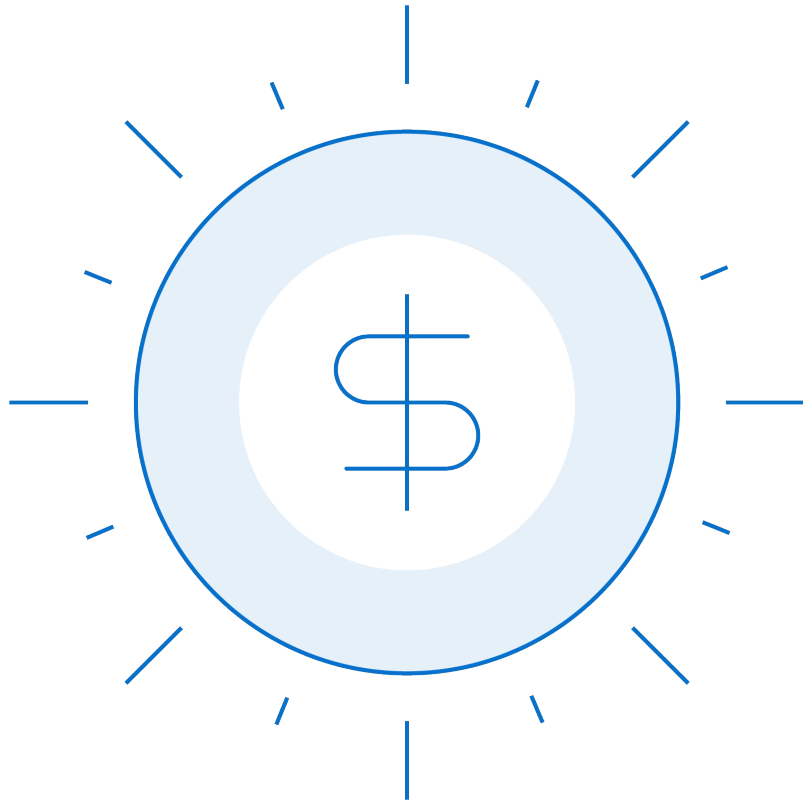




The Profit Stream Pricing Model



The Profit Stream Pricing Model

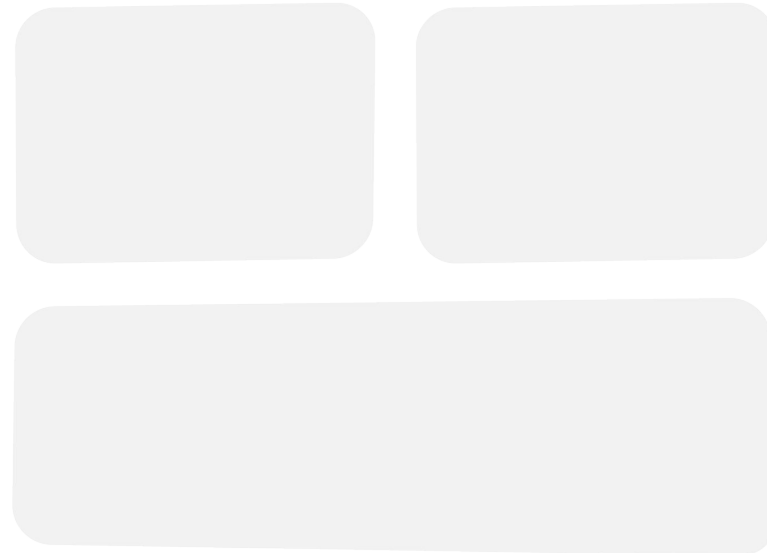


Uses Systems Thinking to identify and manage all aspects of a value-based approach to pricing that **maximizes profit** over time.

The Profit Stream Pricing Model



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

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

STRUCTURE

The Profit Stream Pricing Model



Price Structure drives pricing by different segments and solution attributes

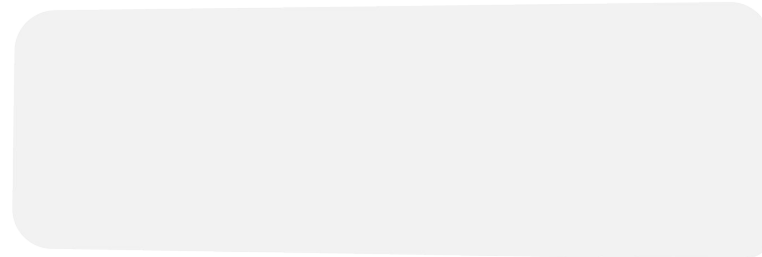
STRATEGY

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STRUCTURE

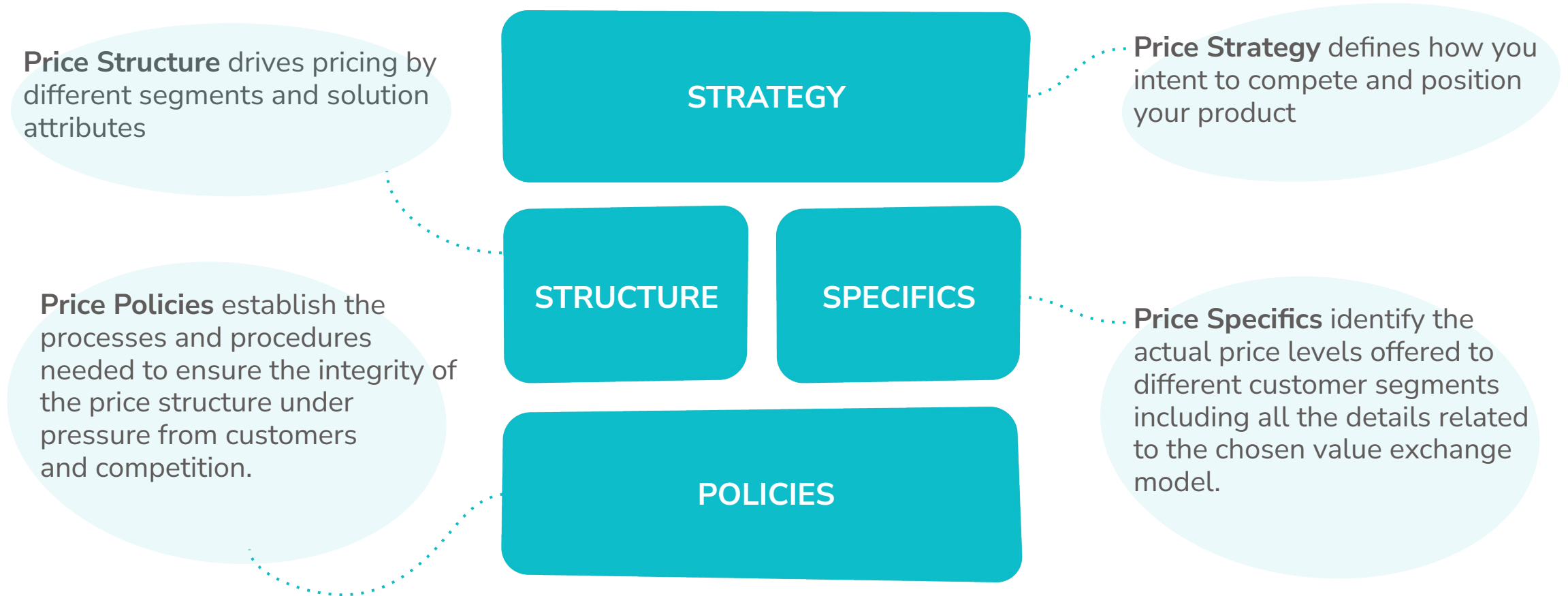
SPECIFICS

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





The Profit Stream Pricing Model





What to do and what not to do

Avoid common pricing mistakes



*CUSTOMER:
"THANKS FOR THE GREAT DEAL!
I WOULD HAVE PAID TWICE AS
MUCH"*

Cost-Plus Pricing



*PRODUCT MANAGER:
"I DON'T GET IT... I DID MY
RESEARCH AND THEY TOLD ME
WHAT THEY WOULD PAY"*

Customer-Driven Pricing



*PRODUCT MANAGER:
"LET'S GAIN LOTS OF CUSTOMERS.
IF WE GENERATE PROFIT QUICK,
WE WIN!"*

Market Share-Driven Pricing

10 Pricing Strategies for Software-Enabled Solutions



Penetration



Premium



Competitive



Stable



Dynamic



High-Low



Economy



Skimming

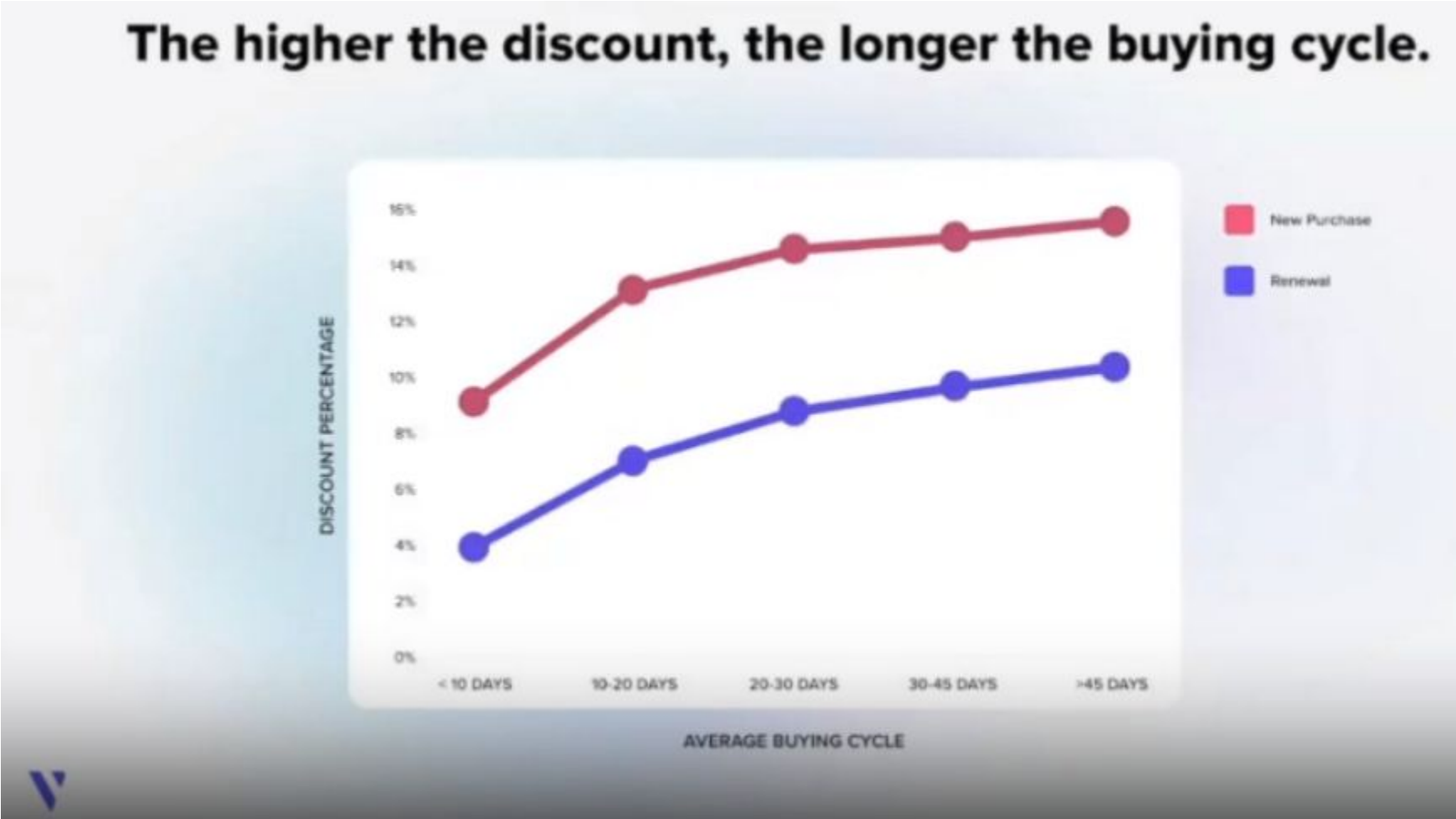


Loss Leader

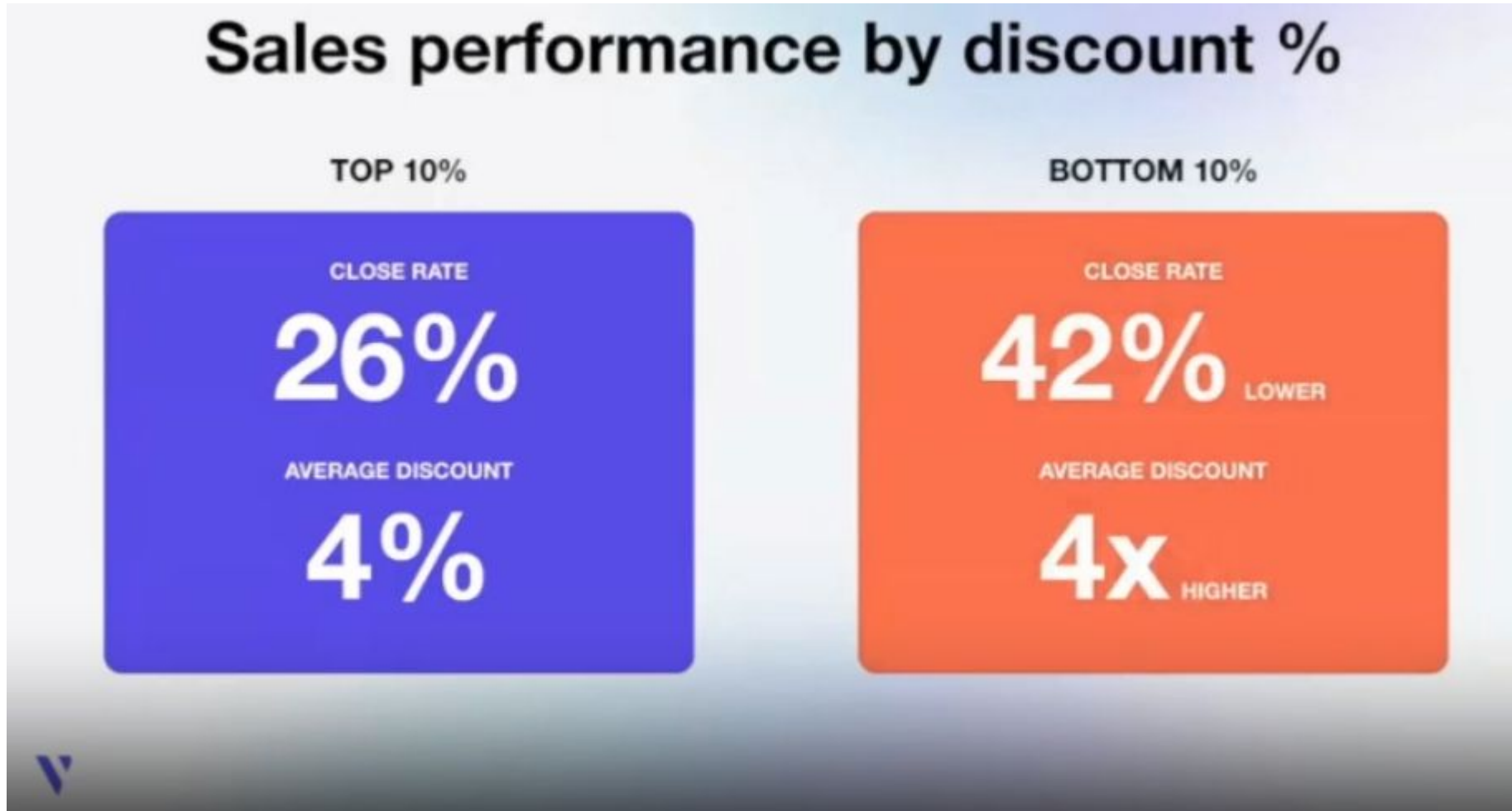


Value

Stop uncontrolled discounts



Excessive discounts result in poorer performance



Implement fences and policies



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.

Price policies define the rules and conditions for price discounts and additional charges that could be applied to a specific business transaction within a customer segment.

The **goal** of price policies is to influence customer behavior through **consistent** and **transparent** communication that aligns differences in price paid with differences in cost to serve and value received.



Consider 3 Rules

1. Better before cheaper: Don't compete on price, compete on value.
2. Revenue before cost: Don't drive profits by cutting cost, instead find ways to earn higher prices or higher volume.
3. There are no other rules: View all your other choices through the lens of the first two rules.



NO Freemium! Ever.



What to do next

- Register for our workshop January 16-18, 2024

<https://www.eventbrite.com/e/3-day-profit-streams-design-course-tickets-754572886817?aff=oddtcreator>

- Contact us for an assessment
- Buy the book!

<https://www.amazon.com/Software-Profit-Streams-Sustainably-Profitable/dp/1544540671>

- Connect with us



Applied
Frameworks

What questions can we answer?

jtanner@appliedframeworks.com
mdanziger@eliasen.com

