Profit Model Exploitation

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WESK
WOMEN ENTREPRENEURS SASKATCHEWAN

About Nick

“Strategist. Innovator. Dream-enabler. Nick is many parts a great deal of energy, heart, and generosity, complimented by strategic street smarts, a triple letter international business education, and over 2 decades of high-level marketing, innovation and business strategy experience.”

As a program and business advisor for WESK business growth program, Nick provides advice and guidance to clients on all aspects of their business. In addition to working with WESK, Nick is the Chief Strategist & CEO of strategy firm, Refresh Inc. He is also involved in the mental health and disability communities, both at a local and national level.

Agenda

1. Introduction
2. Strategic Business Design & Profit Models
3. Today's Outcomes
4. 22 Universal Profit Models
5. Summary & Next Steps

Strategic Business Design

Business Design → Competitive Advantage → Profitability

- Focuses the definition of competitive advantage on the **Customer's** current and emerging priorities.
- Directly **links the drivers** of competitive advantage to quantitative measures of business performance.
- Provides a generic framework to utilize when looking for **future sources** of competitive advantage.

Profit Models

- Profit models are strategic business drivers in action.
- Applied approaches or “strategies” to create customer value.
- 22 Universal Profit Models

Today's Outcomes

4 questions:

1. Which of these profit models are at work in my business?
2. How does profit happen in competitors' businesses?
3. What can I do in the next 90 days to intensify my business' focus on profitability?
4. What profit model would enable us to maximize profits this year?

Let's go!

1. Customer Solutions Profit

- Definition: Invest time and energy in learning all there is to **know about your customers**. Then use that knowledge to create specific solutions for them. Lose money for a short time. Make money for a long time. Study customers, create a custom solution set with multiple services. **Develop relationships.**
- Conditions: Caters to customers that require relationship building

2. Switchboard Profit

- Definition: Multiple sellers communicating with multiple buyers via a **power broker** associated with the service provider. The more buyers and sellers that join the switchboard, the **larger the margin** commanded by the service provider.
- Conditions: Can't do it with a small percentage of supply: once you have 15-20% of market, an upward spiral kicks in. Perceived probabilities go way up, and all deals start flowing your direction. Profitability per unit of effort also goes up. Need connections with major suppliers, or significant market share of suppliers.

3. Profit Multiplier Model

- Definition: Take a skill, asset or intellectual property and make money from it 5 or 6 times. Take **any asset, iterate it, reuse it, give it a different form.** Results in better profit from lower development cost, as you don't have to reinvent the wheel every time you use it.
- Conditions: Branding helps here: **leverage brand** to multiply the value of one service by selling **loosely related** services under the same branding. Different from the Multi-Component Profit because it's not the same product: it's **different products** from the **same original asset**.

4. Product Pyramid Profit

- Definition: Company caters to different levels of **price sensitivity**. **Offer a range** of services from low price / high volume to higher price / lower volume. The base of the **pyramid** consists of low-priced high-volume products, while the apex is made up of high-priced low-volume products. The bulk of profitability is concentrated at the top of the product pyramid, but the base plays a strategic role — often through a **“firewall”** brand — in protecting the **profitability at the top**.
- Conditions: Must be a hierarchy of customers with different expectations and different attitudes towards price. Top of pyramid is the most profitable so make sure you have enough customers at the top.

5. Time Profit

- Definition: Takes advantage of **innovation, newness, uniqueness**, to **gain time limited competitive advantage**. Requires strong **early sales** effort to maximize **high margin revenue**. Profit margins quickly erode as competition catches-up. When a product is new, it earns premium profits. Then, when a competitor copies the innovation, price competition drives profits to zero. Companies relying on this model make **continuous innovation** the modus operandi. "When you see #2 in the rear-view mirror, step on the gas".
- Conditions: Need to have major product launches, or ways to "squeeze out the juice before everyone else learns the secret."

Checkpoint Activity #1

- Customer Solutions Profit
- Switchboard Profit
- Profit Multiplier
- Product Pyramid
- Time Profit

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6. Entrepreneurial Profit

- Definition: Totally aligns an organization behind **rational, common sense, profit-seeking activity**, rather than all the extraneous nonsense that only large organizations can afford or tolerate. A mindset that says, "We can't afford to operate any other way." Total focus on **customer responsiveness, energy, and efficiency.**
- Conditions: Relies on speed, focus, innovation, rapid learning, and cost-control. Essentially a Lean Startup.

7. Multi-Component Profit

- Definition: **Same product, several businesses**. **Multiple products and/or sales channels**, and only some of these represent the bulk of profitability.
- Conditions: The customer behaves very differently on different purchase occasions; he or she has different degrees of price sensitivity. To maximize sales in the high-profitability components, it's necessary to have full presence in the less-profitable components as well. Caters to customers that consolidate on fewer suppliers.

8. Blockbuster Profit

- Definition: Identify and support blockbuster opportunities or **“home runs”** and manage the research and development process to **maximize chances of success**.
- Conditions: Usually for products / industries with high research and development costs, highly influenceable demand, or where there still are many discoveries to be made. Usually need an intensive marketing campaign.

9. Specialization Profit

- Definition: Specialists usually can achieve a) **lower cost through better knowledge** b) better price through **reputation** or unique design of offering c) shorter selling cycles d) more rapid & market penetration because of **existing connections**. This results in **higher margins** than generalists.

10. Installed Base Profit

- Definition: Initial product sales or profits are slim, and **profit is realized on follow-up products and services**. This model is about **transferring power** from the customer (initial purchase with more price sensitivity) to the producer (**subsequent purchases** with less price sensitivity).
- Conditions: If seller makes initial purchase price too high the customer will switch brands. Seller must keep user engaged and its follow-up products easy to buy. Take some aspect of your business where customers are returning naturally and stimulate it more – market aggressively.

Checkpoint Activity #2

- Entrepreneurial Profit
- Multi-Component Profit
- Blockbuster Profit
- Specialization Profit
- Installed Base Profit

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11. Specialty Product Profit

- Definition: Similar to brand profit but companies use **above standard materials and design** to generate higher margins until competitors start to imitate. “Find the richest fields: the place where customer need, technical feasibility, and lack of competition intersect.”
- Conditions: Need to continually develop new niche products with higher margins. Difference from Blockbuster Profit is that this is niche: specialty foods, specialty papers, etc. Finding a legitimate need or variation and addressing it.

12. Value Chain Position Profit

- Definition: There are places in the value chain that are ten times more valuable than others in terms of **profit, power, and control**. These special places are the **control points** of the business landscape and could arise from scarcity, bottlenecks, connection with customers, relative value added, etc.
- Conditions: The location of value chain position profit is different for each industry and can change rapidly. Be aware of existing control points, radical shifts in control points, and new control points that could arise.

13. De Facto Standard Profit

- Definition: The **more players who buy** and enter the system, the **more valuable the network**. **Being the standard** leads to less surprise and allows you to plan more (Surprises cost money by causing you to react, respond, scramble). Your customers do your marketing for you.

14. Local Leadership Profit

- Definition: Many businesses and their company economies are totally local. Risk occurs when these companies fail to recognize they are a **local business model**. **Strive for local leadership**, this could mean x locations per city / county.... in doing so take advantage of lower purchasing costs, lower recruiting and advertising costs, shops as billboards, foot traffic and higher awareness and potentially slightly higher pricing. “Saturate the circle” or “fill the column.”
- Conditions: Requires financing and operational expertise to multiply quickly.

15. Cycle Profit

- Definition: Industries characterized by distinct and powerful **cycle**. The company cannot control the cycle, but it works to **maximize its position within the cycles grip**. As capacity tightens the companies lead price increases, as capacity loosens, its lag price declines. When others lose money, you break even. When others break even, you make money.
- Conditions: Hard to predict cycles. The key to profiting from cyclical industries is arbitrage – to “lead” or be ahead of the up cycles and to “lag” or be behind the down cycles. This can be done through buying low / selling high, reducing costs, or increasing / lowering prices depending on where you are in the cycle.

16. Brand Profit

- Definition: The company expends significant marketing investment in order to **build awareness** which is reinforced by **customer experience**. You know brand profitability is working when a consumer says, “I only drink Coke” even-though blind tests show consumers are often unable to distinguish the difference between Coke and its competitors.
- Conditions: Need time and resources (persistent spending) to build cumulative brand awareness and loyalty. Need to go after the share determining segment (SDS) – “the SDS is the most important segment in the market. That’s the one where high share today translates into high share of the whole market tomorrow.”

Checkpoint Activity #3

- Speciality Product Profit
- Value Chain Position Profit
- De Facto Standard Profit
- Local Leadership Profit
- Cycle Profit
- Brand Profit

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17. Transaction Scale Profit

- Definition: Turn small business away to focus on the **big accounts**; bias yourself to big business.
- Conditions: Big transactions are a function of your relationships, and it takes years to build relationships.

18. After-Sale Profit

- Definition: **Price sensitivity is highest** when ticket price is high, variability is high, and there are lots of options (i.e., houses, cars, TVs). Customers spend a lot of energy finding the best deal. Price sensitivity is lowest when ticket price is low, variability is low, and there are few options (i.e., coffee, service contracts, insurance, accessories).
- Conditions: Requires a mini-market has been created or brought into being by the initial sale; usually mini-market items are lower priced, and frequency of purchase is greater. Difference from Installed Base Profit is that other companies are profiting from after sale products.

19. New Product Profit

- Definition: The Profit Parabola |_/_ "The total profit earned by all players in a market goes up, peaks, and comes back down to zero. "Manage the parabola strategically by overinvesting on the left-hand side of the parabola, and underinvesting on the right-hand side. On the left-hand side, above all else, **fight for mindshare**. Be seen as the category leader in the mind of the customer. Merchandise your product mercilessly. Be everywhere. Build plants and do subcontracting deals as fast as you can. **Before hitting the peak of the parabola**, invest less money to manage the business to maximize cash flow (right-hand side). "Get off the last wave first, catch the next wave first."

20. Low-Cost Business Design Profit

- Definition: The company thrives on **reducing the cost per unit** through cumulative experience.
- Conditions: The low-cost business design doesn’t need huge market share to be hugely profitable. It is hugely profitable as long as it continues to be dramatically lower-cost.

21. Relative Market Share Profit

- Definition: Companies with **high market share** tend to be more profitable due to a) scale economies in manufacturing b) greater purchasing clout c) lower per-unit manufacturing costs d) lower per-unit costs for overhead and R&D e) attracting the best talent – everyone likes to work for a leader f) more resources, cash or otherwise g) more ability to control / plan the market.

22. Experience Curve Profit

- Definition: Experience in serving the market and strong financial management **drives down** the **transactional cost**.
- Conditions: Danger with this profit model is that you can miss the forest for the trees; innovations that make you irrelevant, or the invention of a new model that delivers the same thing at a 20-30% lower cost.

Checkpoint Activity #4

- Transaction Scale Profit
- After-Sale Profit
- New Product Profit
- Low-Cost Business Design Profit
- Relative Market Share Profit
- Experience Curve Profit

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Summary

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Recap: Today's Outcomes

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Next Steps

1. Identify three profit models that you will own.
2. Discuss with your Cohort.
3. Talk to your WESK business advisor.

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Thanks for participating today!

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