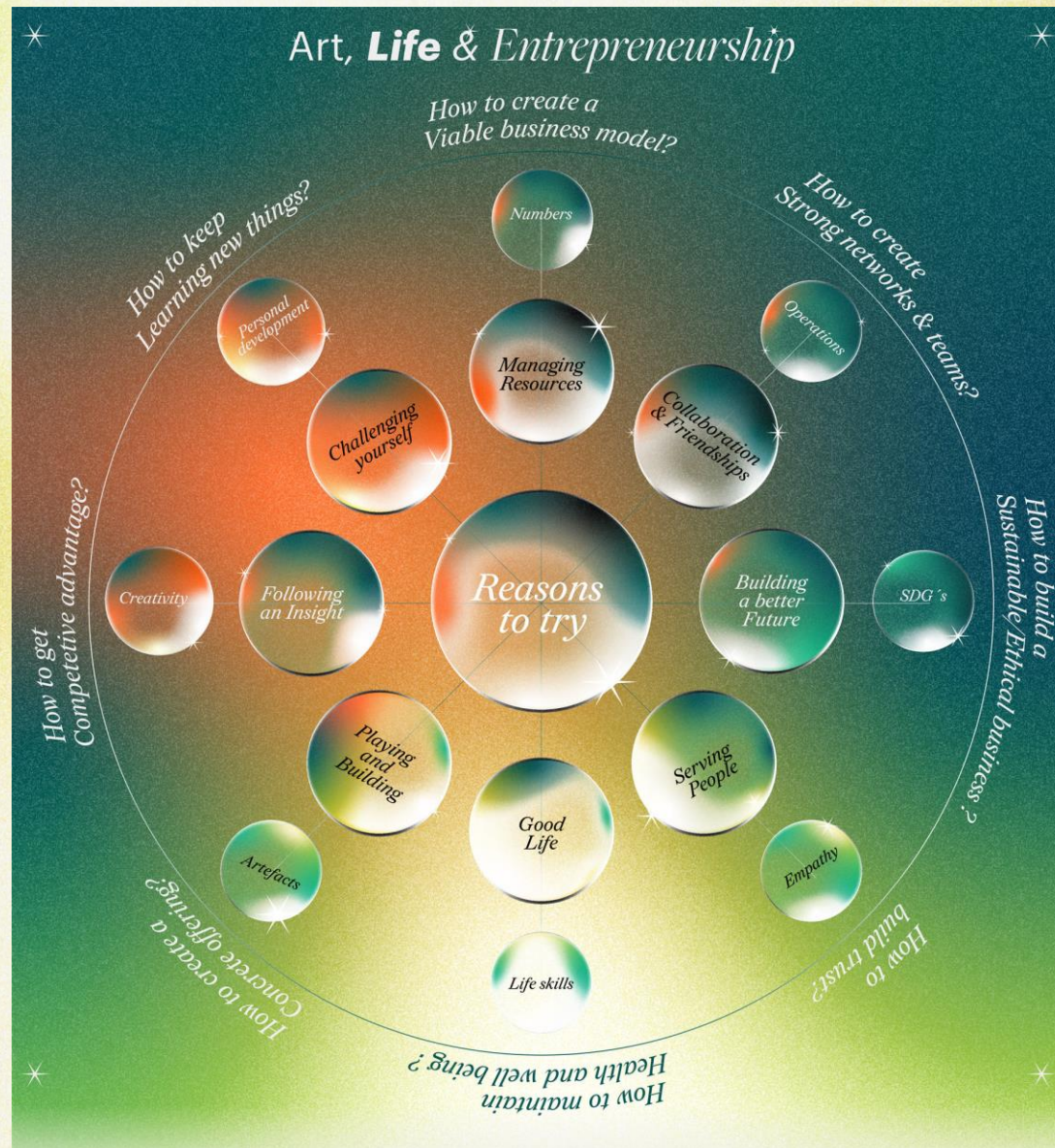
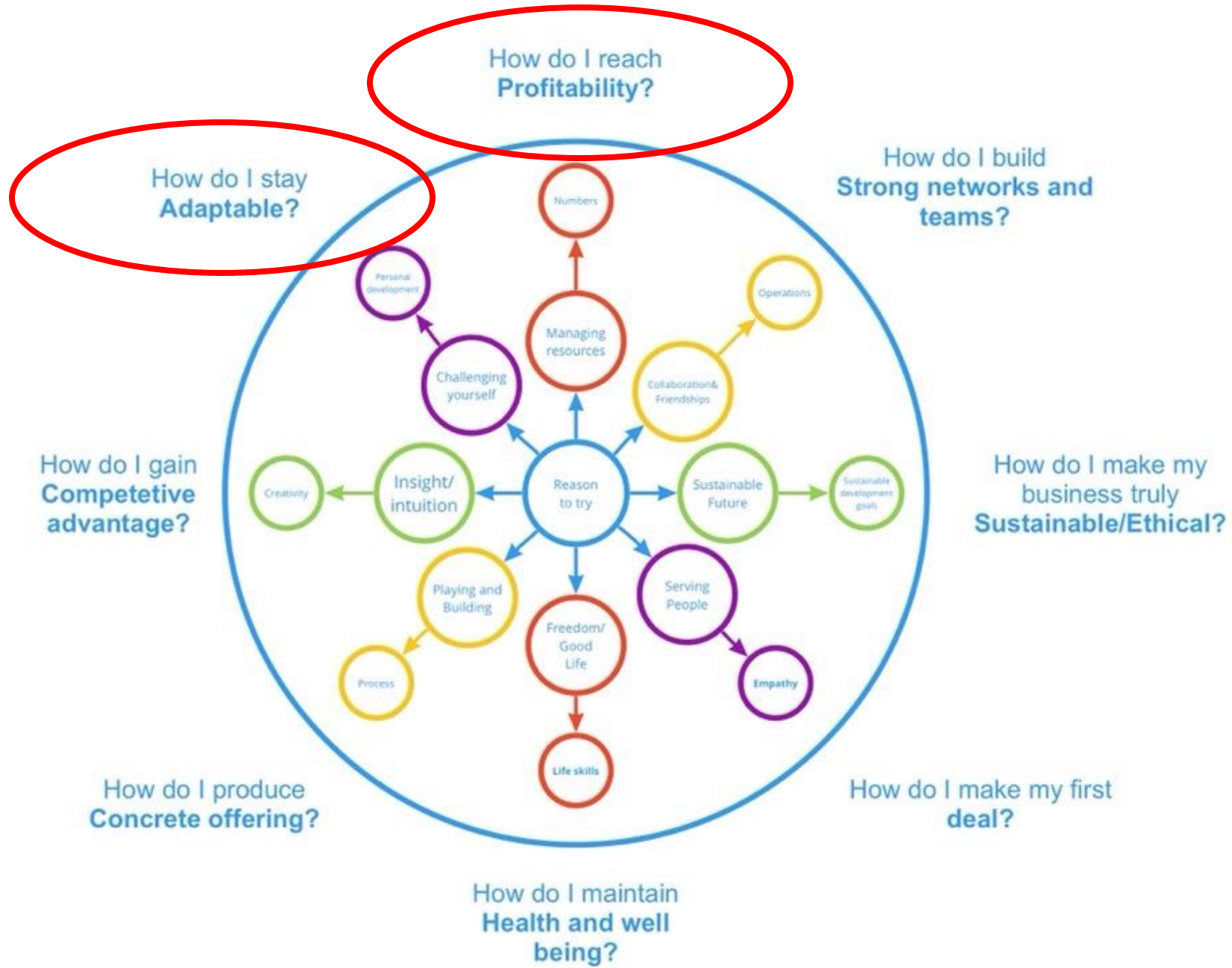


We will start at 12:15



Session 6 – May 24

Test run (of your own business)



Home assignment – due on May 31

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 - Learn or propose or something else?
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Your revenue model in
practice = pricing



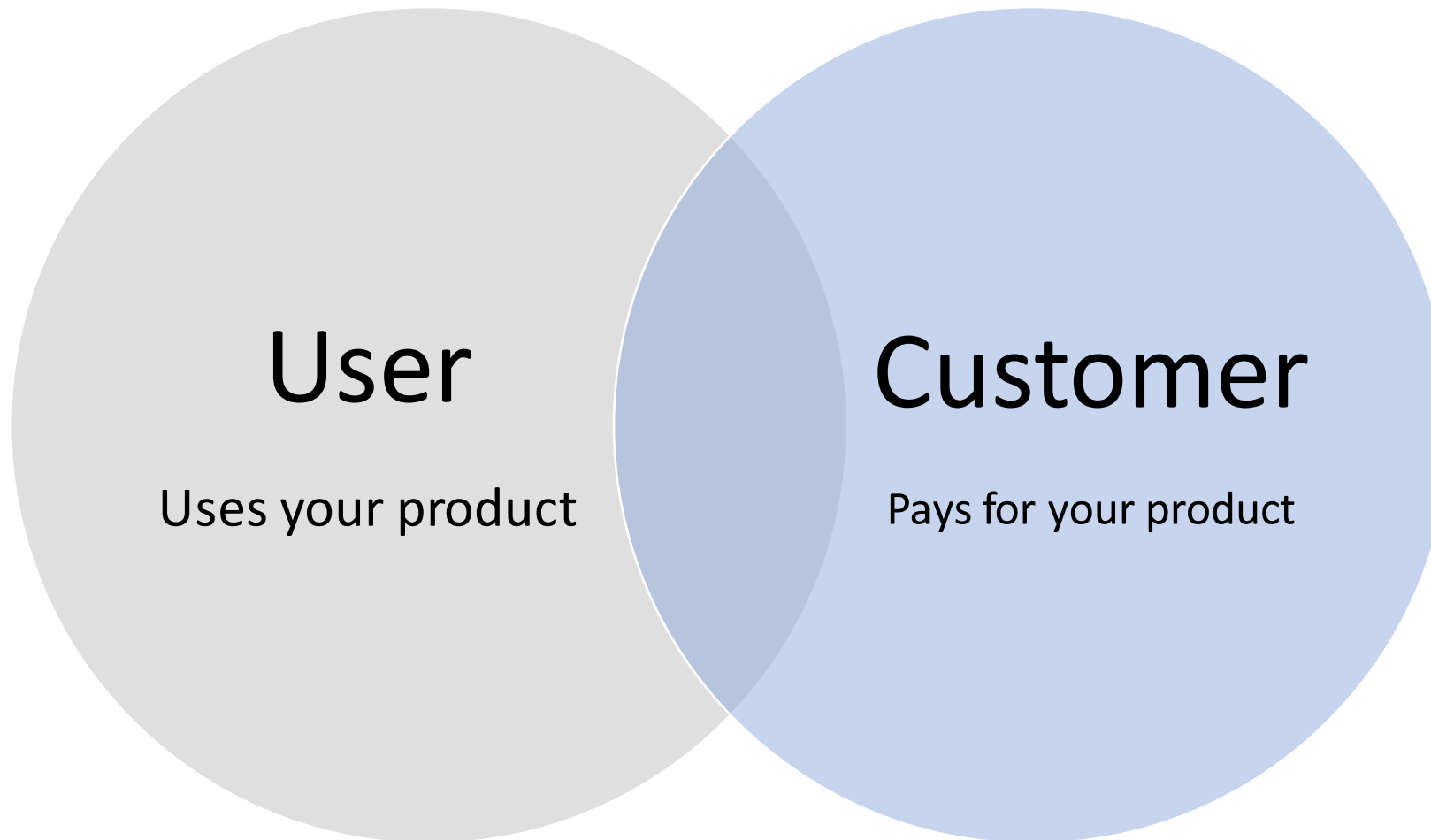
Pricing model

How you set the price (dynamically)

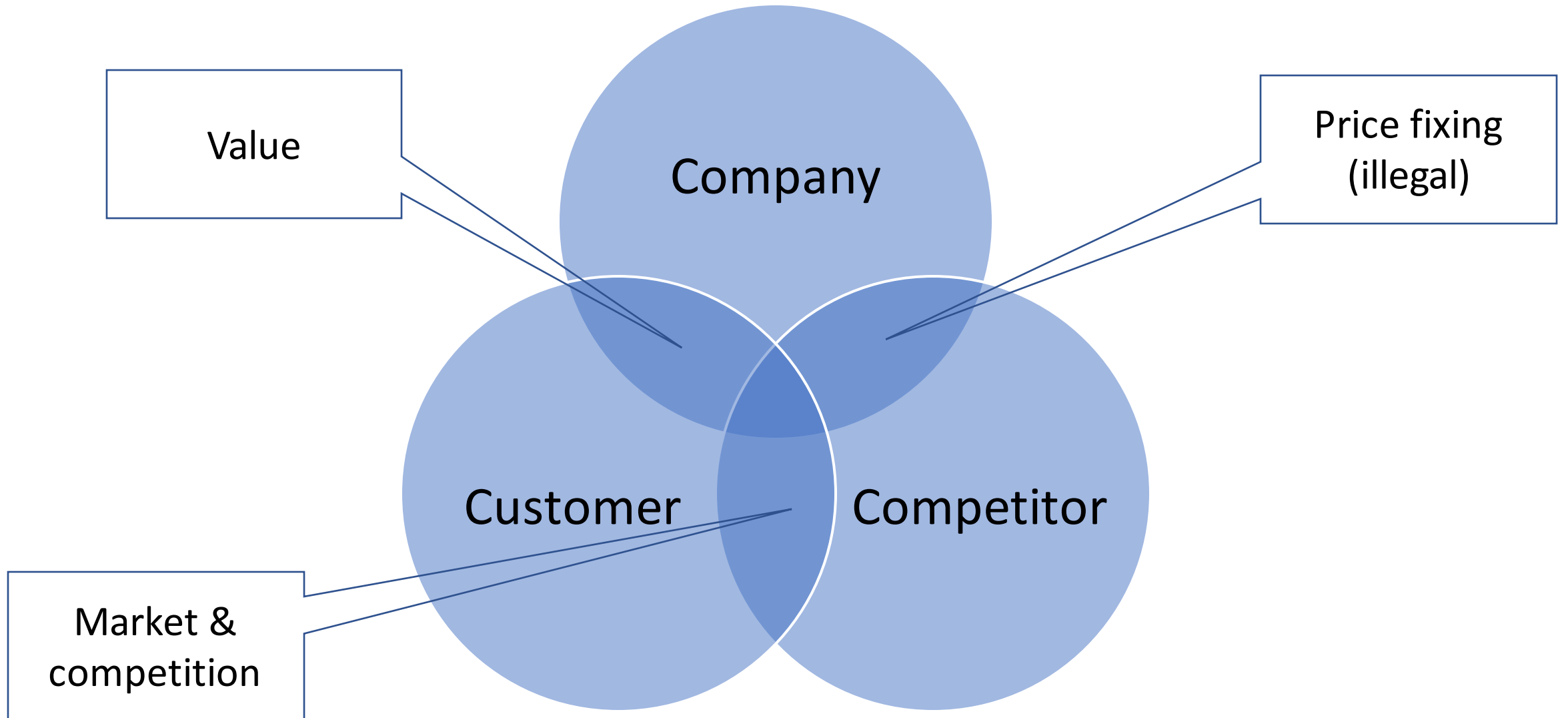
Price

How much a specific customer pays

User and Customer



Pricing environment



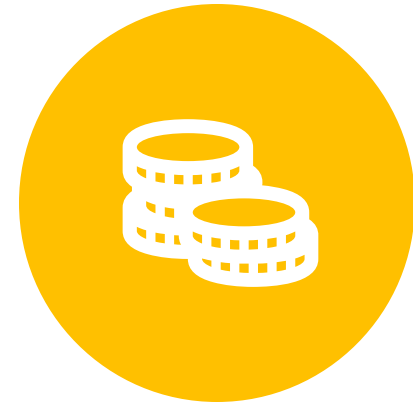
Approaches to pricing models



COST-BASED



MARKET-BASED



VALUE-BASED

Balance in Pricing

Value for Customers
= “maximum price”



Costs
= “minimum price”

1. Cost-based Pricing

- Starting point: What are the production costs?
- $\text{Price} = \text{cost} + \text{profit}$
- Company-centric
- Lower bound for all prices (long term)
- If your business is mainly selling your skills and competences, you actually set the lower bound by defining how much you want to earn!



2. Market-based pricing

Competitor centric

Starting point: What do our competitors charge?

- Price > market price → premium product
- Price < market price → low cost product
- Price = market price → "we don't know what we are doing"

3. Value-based pricing

- Starting point: How valuable is our service for our customer?
- Price \sim value
- Challenge: How to understand what customer values?
- Holy grail of pricing

The Value Pyramid

- Where are you?
- Where is the market?
- How do you differentiate yourself?

• <https://hbr.org/2016/09/the-elements-of-value>

SOCIAL IMPACT



Self-transcendence

LIFE CHANGING



Provides hope



Self-actualization



Motivation



Heirloom



Affiliation/belonging

EMOTIONAL



Reduces anxiety



Rewards me



Nostalgia



Design/aesthetics



Badge value



Wellness



Therapeutic value



Fun/entertainment



Attractiveness



Provides access

FUNCTIONAL



Saves time



Simplifies



Makes money



Reduces risk



Organizes



Integrates



Connects



Reduces effort



Avoids hassles



Reduces cost



Quality



Variety



Sensory appeal



Informs

Functional

FUNCTIONAL



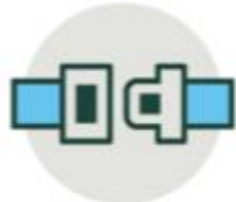
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Exercise

What is the basis of how you price your offering?

- Functional?
- Emotional?
- Life changing?

Breakout rooms: 15 minutes

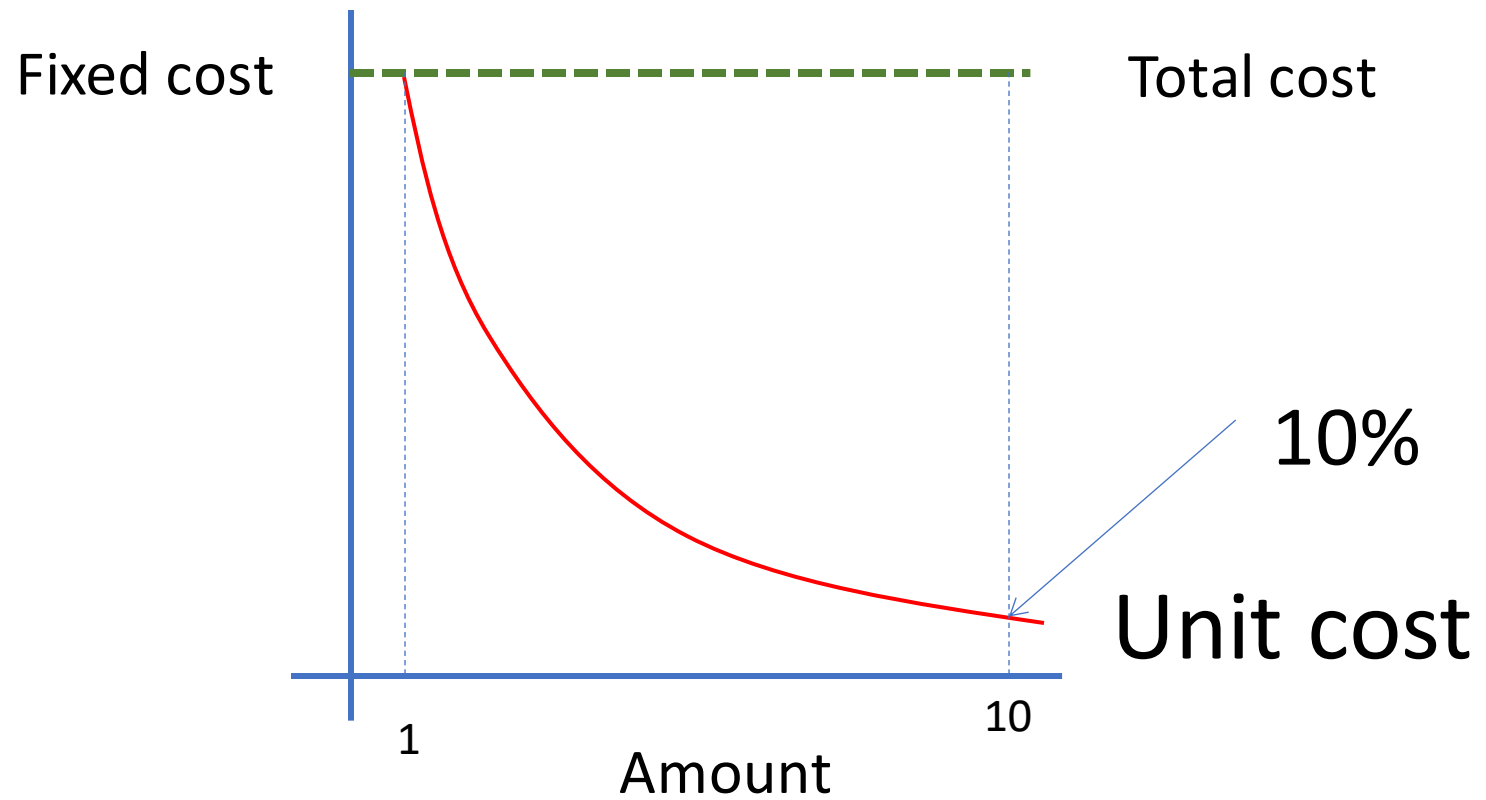
Cost basics

Setting the “floor” for your price

Cost structure

- Fixed cost
 - Same regardless of how much produced
- Variable cost
 - Costs related to production
- Total Cost
 - Fixed costs + (production * variable cost)

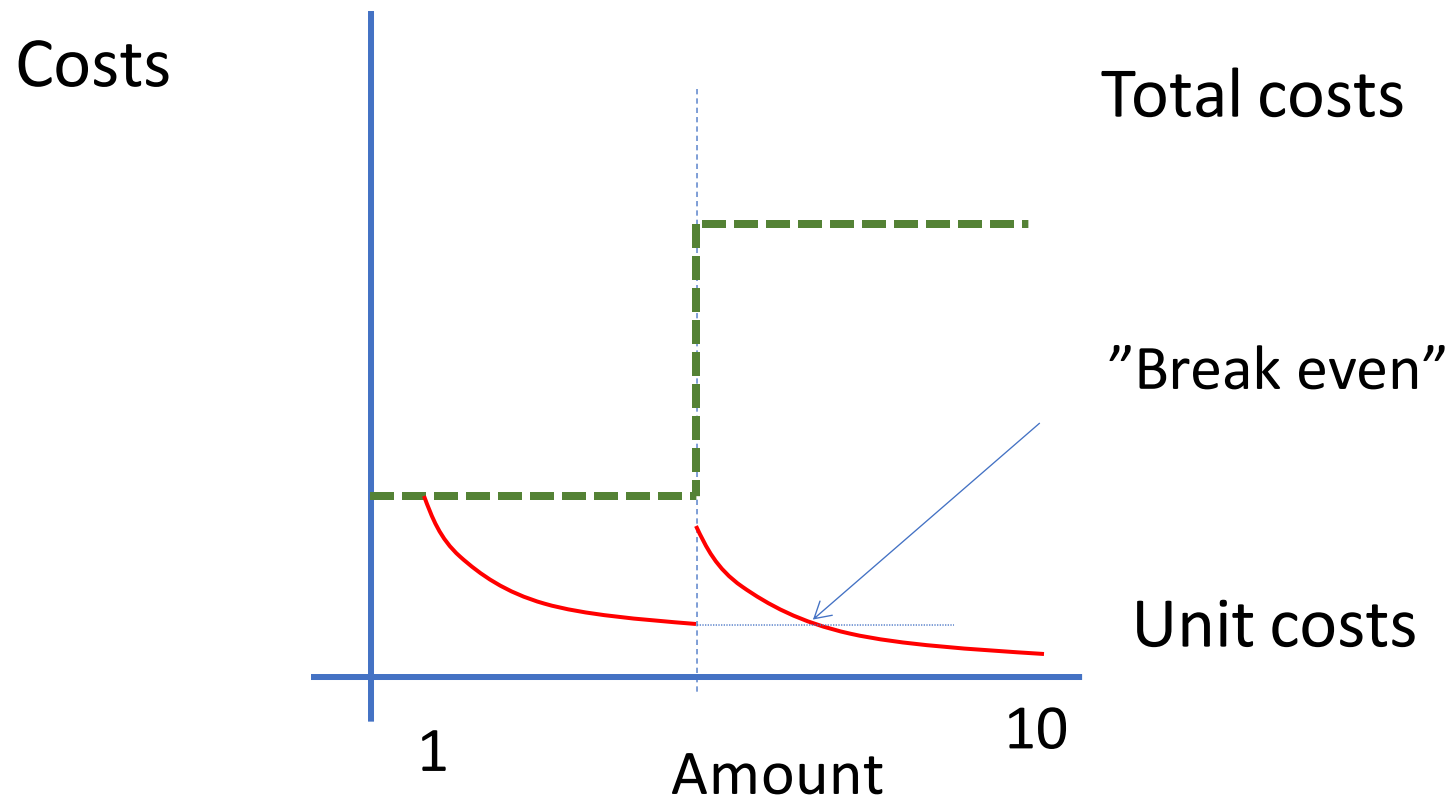
Fixed cost vs unit costs



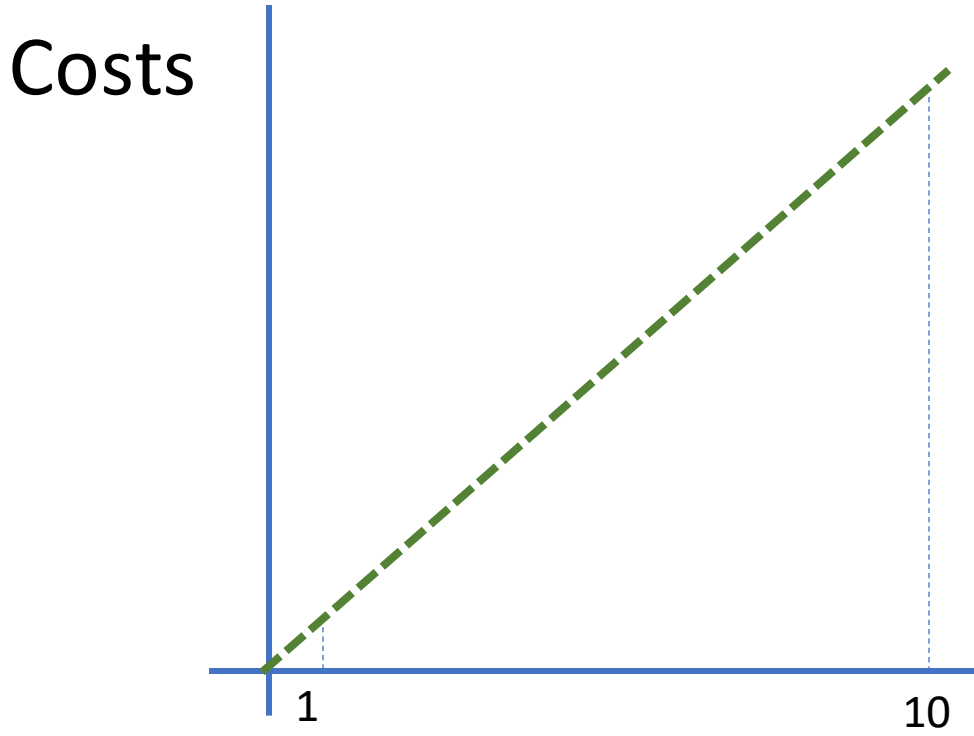
Fixed costs in practice

- Unit cost go down as nr of units go up
- Fixed costs are based on planned production volume
- If production/sales goals are not met, actual unit costs go up

Fixed costs



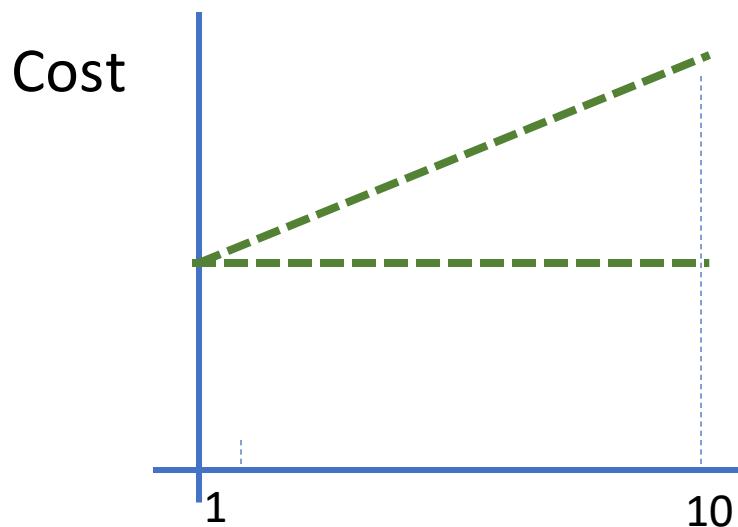
Variable costs



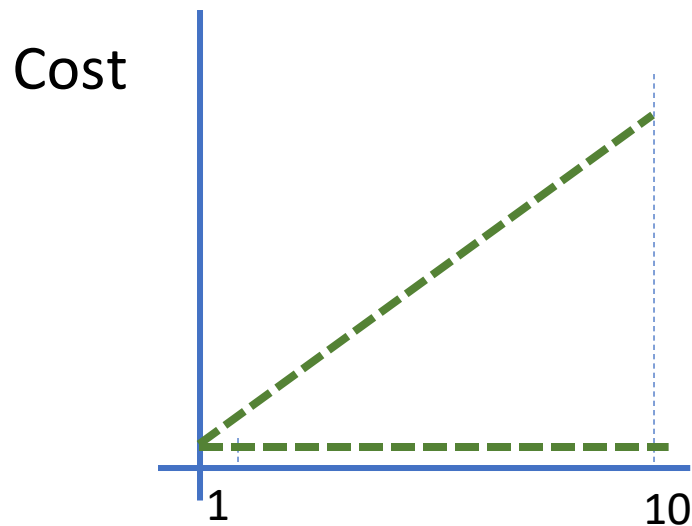
In practice

- Variable costs increase as a function of production
- Unit costs can vary depending on volume
 - Volume discounts (-)
 - Overtime (+)
- Rarely big stepwise increase

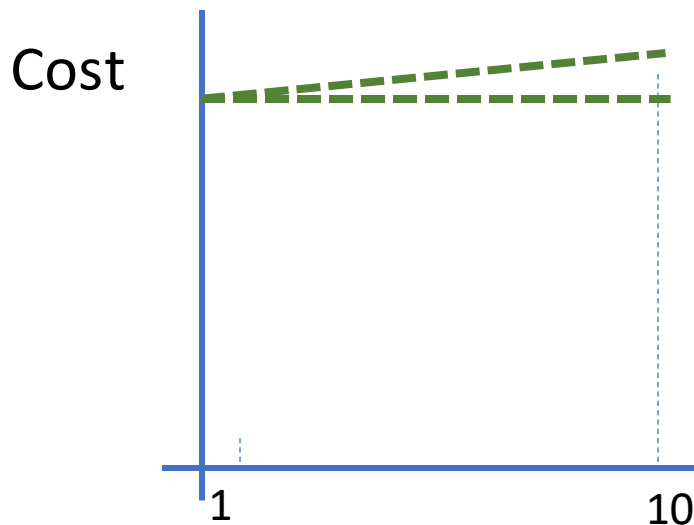
Risk?



Pricing?



Upside?



Let's put the
theory into
practice!

	Case 1	Case 2
Company level		
PROFIT	0 €	0 €
FIXED COSTS + SALARY	0 €	0 €
Services	0 €	0 €
Rent	0 €	0 €
Depreciation	0 €	0 €
Entrepreneur		
Salary/month	0 €	0 €
Salary sides costs	0 €	0 €
Months of work	0	0
Single project or product level		
Price (vat = 0%)	0 €	0 €
Price including vat (24%)	0 €	0 €
Variable cost for one project/product		
Materials	0 €	0 €
Travel	0 €	0 €
Hours of work	0,0	0,0
SALES MARGIN	0 €	0 €



Download excel file for your own use

- <https://www.dropbox.com/s/yxwwsnvel9d5gc1/Reverse%20income%20statement%20-%20download.xlsx?dl=0>

Credits:

Based on original idea and Excel sheet:

Immonen, H. (2021). *Käänteisen tuloslaskelman kevytversio – hyödyt, virheet ja laatimisohteet*. Available at

<https://www.draftprogram.com/2021/01/08/kaanteisen-tuloslaskelman-kevytversio-hyodyt-virheet-ja-laatimisohteet/>

Exercise

- Fill in your own reverse income statement
- Preferable do a couple of alternatives that you can compare.

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Final presentation – May 31

Prepare a casual introduction to your business (about 5 minutes).

Think about possible scenarios:

- First meeting with a company and they ask “Well, tell us a bit about your business”
- First meeting with a private customer and they ask “Well, what is it that you do and how could you help us?”

You can use supporting material like a presentation (perhaps more appropriate for the company scenario) or a portfolio etc.

Ideas for your presentation

- Short intro, name and a one sentence description of your business
- What customer problem do you solve?
 - Can you give a concrete example?
- What is the outcome that you create for the customer?
 - What was the outcome in the customer problem case you mentioned above?
- How do you work with customers?
 - Communication, what you expect from the customer, typical schedule
- Next steps
 - In the meeting
 - After the meeting (if all goes well)