



Revenue Models & Product Pricing

Unit 7

Agenda

- [Check In](#): Review feedback on 100 word app description and discuss changes
- [Revenue Models](#)
- [Cost structures](#)
- [Pricing your product](#)
- [Wrap Up & Share](#)



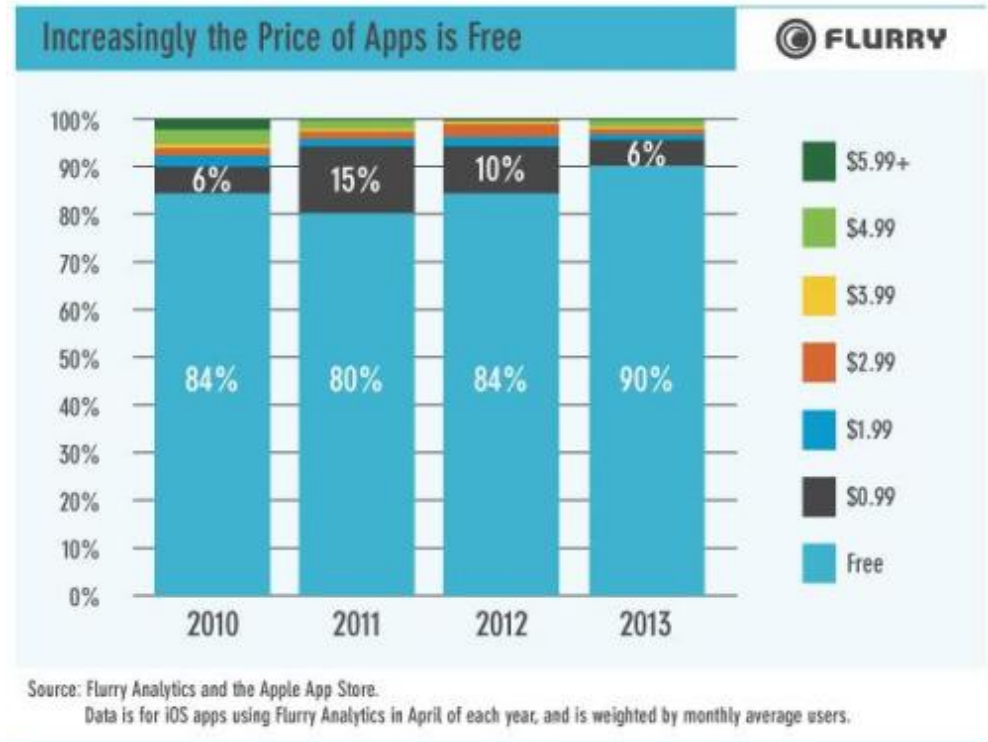
Review from last week

- What feedback did you receive about your brand?
- Do you need to make any changes to your plan to incorporate/address the feedback?
- What feedback did you get on your 100-word app description?
- Revise it based on the feedback.

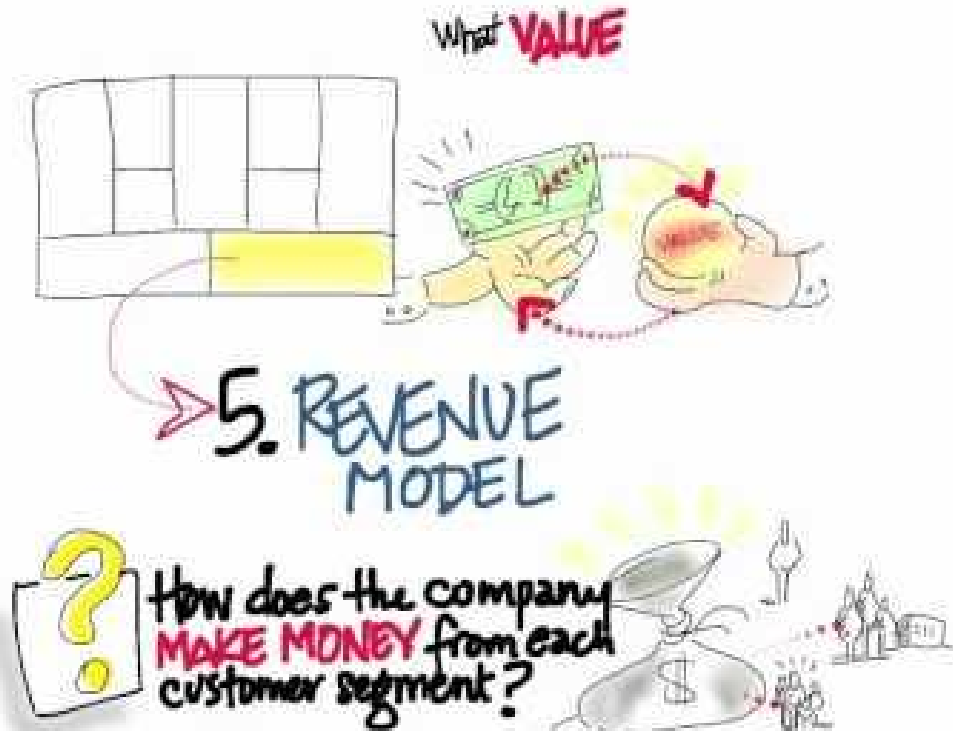


How will you make money?

- The fact is that most apps are free and don't generate much revenue.
- See this 2013 analysis by the Wall Street Journal to learn more about the average app price and the average salary of app developers.



Your Revenue Model



Check out this [additional resource](#) to develop your revenue model

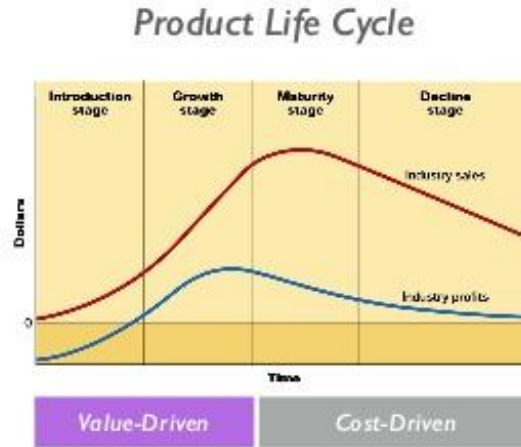
Your Cost Structures



Revenue Streams and Cost Structure

1. Pricing is **part** of the product.
2. Pricing determines your **customers**.
3. Getting **paid** is the first form of **validation**.

Business Model Cost Structures: Value-Driven vs. Cost-Driven



Value-Driven

Focused on delivering on customer needs/expectations and establishing brand; non-competitive environment

Cost-Driven

Aggressively manage costs (via outsourcing, automation, supplier leverage, etc.); highly competitive



Erecting barriers to competition and leveraging technology to reduce costs help keep companies profitable over the long term



These definitions of Cost-Driven and Value-Driven models are extreme. Most business models fall somewhere between the two (see below). Remember that a business model can change over time, as the business changes.

Cost driven

RYANAIR

jetBlue

UNITED AIRLINES

Virgin america

BRITISH AIRWAYS

First

SINGAPORE AIRLINES

Value driven

Cost Structures

Fixed costs: Costs that remain the same despite the volume of goods or services produced. Examples include salaries, rents, and physical manufacturing facilities. Some businesses, such as manufacturing companies, are characterized by a high proportion of fixed costs.

Variable costs: Costs that vary proportionally with the volume of goods or services produced. Some businesses, such as music festivals, are characterized by a high proportion of variable costs.

Economies of scale: Cost advantages that a business enjoys as its output expands. Larger companies, for instance, benefit from lower bulk purchase rates. This and other factors cause average cost per unit to fall as output rises.

Economies of scope: Cost advantages that a business enjoys due to a larger scope of operations. In a large enterprise, for example, the same marketing activities or Distribution Channels may support multiple products.

Pricing your Product

Setting a price for a product is one of the most important decisions a company can make.

- Consult this [detailed guide on how to price your product from Sequoia Capital](#).

Sequoia Capital is a well-known venture capital firm that invested in Apple, Google, PayPal, Stripe, Youtube and Instagram

- Take a look at these [guidelines on app pricing](#).

The infographic is titled "The Science of Pricing" and features a cartoon scientist character. It includes a "TAKEAWAY" section and a section titled "The Magic 9" which shows three dresses with different price tags: \$34, \$39, and \$44. A blue arrow points down from the dresses to the text "There were more sales at the price".

www.blog-growth.com

The Science of Pricing

TAKEAWAY: Remove the dollar sign from your products.

The University of Chicago and MIT tested 3 prices for a women's clothing item: \$34, \$39 and \$44.

The Magic 9

\$34 \$39 \$44

There were more sales at the price

The Science of Persuasion



Keep up the great work!



Wrap-Up & Share

- Share photos on [Facebook](#) and [twitter](#)!
- Use your workbook to focus on your potential revenue and make some calculations
- Continue testing your app prototype
- Post any questions or difficulties you may be encountering on the Technovation [Facebook](#) page, and we'll help!

