Questions to ask whilst thinking about these profit models:

- Which of these models are at work in my company?
- How does profit happen in competitors businesses?
- What can I do in the next 90 days to intensify my organisation’s focus on profitability?
- What profit model would enable us to maximise profits this year?

23 Profit Models

1 - Customer Solution Profit

- How could a company of 36 people generate $24M in revenue, compared to 400 people generating $40M in revenue?
- They identified the customer they needed, sent 2 people to work there for 2-3 months, and learned everything about the customer's business. Then they sold their product to the customer, fully integrating it into their business.
- This principle is basically universally applicable.

2 - Pyramid Profit

- Multi-tier product strategy that encompassed a core product, a standarised (but high quality and efficiently produced) product as a low-end “competitive firewall” to block new entrants from the market, through to a “rolls-royce” product.
- Each should appeal to a specific niche and requires a specific understanding of all customer, both current and potential.
- Examples include Nokia phones, AMEX's credit cards and GM cars.
- An example of poor execution would be petroleum and the flat pyramid relationships caused by a focus on price competition, as opposed to functionality.

3 - Multi-Component Model

- This model applies where a single product is applied at a different price to different channels.
- The best example is Coke Cola. You buy the same product at different prices (according to price sensitivity at each) at a vending machine, a supermarket or a restaurant.
- Customers usually are consistent to all channels rather than just one. The situation (i.e., where they are and what they are doing) is what specifies the channel.

4 - Switchboard Profit

- The bringing together of sellers, with buyers to create a monopoly on high-value sales.
5 - Time Profit
≡ Upfront innovation yielding large profits that are eroded over time by competitors entering the market created.
≡ The key to building large profits is to master the art of innovation so efficiently, that you maximise the profits upfront.

6 - Blockbuster Profit
≡ Applicable to managing a product pipeline.
≡ Differentiation of high-profit R&D vs anti-profit RD i.e. a market where customers won't pay for what you develop.

7 - Profit Multiplier Model
≡ The use of a multiplier effect to more than merely double profits.
≡ A good example is Honda’s manufacturing car engines, outboard motors, industrial engines and more. Basically using a base skill of motor engineering to create products across different markets.
≡ Forms of realisation include skills, assets and Intellectual Property.
≡ Different products that realise a Blockbuster Business Operating Model to increase the odds of success.

8 - Entrepreneurial Profit
≡ Fundamental tenants: copy your competitors, celebrate star performers, save money, experiment, cut loses quickly, focus on wins and have fun.

9 - Specialist Profit
≡ Really learning vs just learning a topic.
≡ EDS did not learn everything at once. It chose a segment and learned it exquisitely well. They learned all the processes of an industry so well, not just in general, but specifically for each player.
≡ This can lead to a reputation for experience, leading to higher utilisation of resources, and high sales volumes and margins per sale.
≡ Additionally, this model can attract better talent to a business, shorter sales cycles, higher quality outputs and a better ability to up-sell to customers.
≡ Most of the cost is in developing the solution.
10 – Install Base Profit
- Demand volatility: high vs low
- Price sensitivity: high vs low
- Per unit cost: high vs low
- Consumer control: high vs low
- Sellers can screw this up buy having too high a price on consumables, or marking it too hard for the customer to buy.

11 – De Facto Standard
- Surprises cost money, therefore De Facto Standard allows for plan-ability for customers.
- IBM Mainframes, Microsoft Windows, Oracle DB....

12 – Brand Profit
- A cumulative effect of ad spending.
- We spend what we can afford rather than spending to drive market share.
- This shouldn't preclude finding more leveraged methods i.e. differentiation, better channels or Share Determining Segments (SDS).
- SDS is where high share today translates to high share of the whole market tomorrow. An example is architects.

13 – Speciality Product Profit
- Specialist products earn higher gross margins.
- This shift for specialist to commodity is something every business needs to do at some point.
14 - **Local Leadership Profit**

- Generates higher buying power, better traffic, lower recruiting costs, high impact - low cost marketing whilst allowing for premium pricing.
- The effect is regional business fuelling growth to neighbouring regions.
- This approach requires a consistent and persistent approach.

![Starbucks and Walmart](image)

15 - **Transaction Scale Profit**

- Big transactions mean bigger profits.
- Big transactions = relationships.

![Graph showing relationship between transaction scale and profit](image)

16 - **Value Chain Profit**

- Some locations in the value chain are more important than others (e.g. Microsoft and Intel)
- The key is identifying the control point and owning it.
- Points change and emerge across industries.

17 - **Cycle Profit**

- This focuses on volume and not the relationship between cycles and profit.
- The goal is to reduce the costs of production so you are ahead of the industry in break even and profits.
18 - After Sale Profit
- Price sensitivity is highest when ticket price is high, variability is high and there are lots of options. The converse is also true.
- This can create an environment for follow up opportunities.
- Different to install base - in this case, the manufacturer doesn't benefit from the “follow up” market.
- It takes a different sort of organisation to focus on sales after the big ticket sale.

19 - New Product Profit
- Not to be confused with Time or Specialty Product profit models.
- Over invest on the upside and cut back investment on the downside.
- Measure everything that will give you an indication that you are approaching the peak i.e. growth rates, price changes, etc.

20 - Relative Market Share Profit
- Characterised by Jack Welch
- It works via scale in manufacturing combined with the lowest purchasing prices.
- This results in the lowest cost per unit, with the lowest R&D cost per unit.
- In addition, this brings other benefits in that RMS becomes a magnet for talent and also combines multipliers such as Value Chain Profit and De Facto Standard profit models.

21 - Experience Curve Profit
- Was 60% of a 1960's Business School curriculum - now about 1%.
- Similar to RMS but focuses purely on taking costs out of the system.
- Experience curve is also about learning rates i.e. knowing when to cut costs, what to focus on.
- The danger here is completely managing details and losing vision for where the product lifecycle is going i.e. new paradigm (cans to bottles) or a new system (DELL, Southwest).
22 - Low-Cost Business Design Profit
   = Focusing on inflicting value chaos to experience curve or RMS models by undercutting on price (by taking 20-30% of the costs out of the system) or the next system (i.e. cans to pet bottles).

23 - Digital Profit
   = Shifting from conventional to digital can have a huge impact on profitability
   = A great example is DELL. Others include: CEMEX, Oracle. All delivering more than 10x more profitable models.
   = Delivers higher customer control to select (Choice Boards)
   = But it can’t redeem a crummy business model !!!