Business Models - Pricing

SmartUp Foundations Course - Lecture 5

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So, welcome to lecture number five in our series. So I'll start with the usual introduction of the people. Libby Ayala is on the back. And Ruti. And what is the smartup academy? It's a program to teach the profession of building successful companies. So we strongly believe that this is a profession that you can learn and you can practice, and you understand all the pieces. And what we have in here is the foundations course. It's going to be a 13 lectures of the foundations course. I will tell you a secret. I'm still working on them one by one, but it helps me build the whole process. And the definition of what is a successful company that I wrote in here is a company that have three attributes. First and foremost, it's profitable in cash terms, which means it generates cash months after months.

It's fast growing, and it's all done with a modest investment. And we will talk about that later on as well. Then we also have workshops. You see the tip of the iceberg in the homework we give you. So the purpose of the workshop is to have a few companies, two, three, four companies, sitting and doing one of the subjects, like branding. First, each of the companies working on their own company branding and share experiences as we do that. What I'm doing with you here is take from time to time, one of the companies in the portfolio and bring it over here. We were supposed to have today, Bioform. Then there is the residency program, because very much like any other profession, you can hear all the lectures in the world. They are nice. You do the homework, you understand the philosophy, the strategy.

But when reality hits, everything is different, everything looks different. And so we work with the companies in here. Usually the residency program is four or five years, or as long as it takes. People graduate, or companies graduate when they are growing fast, profitable and doing great, or when they are acquired, like happened with obsteer, which did everything. So it takes a long time to do that. And usually companies that are in the residency stay with us, and we meet with them every week, two weeks, three weeks, depending on the situation, depending on the company. We work with them very closely. So you will see the same slides at the beginning, because repetition is the essence of studying. So the things that are important to me, I keep repeating until everybody can sing them.

So, as Galileo Galilei said, mathematics is the language in which God has written the universe. He wrote that in the 16th century, and he was the first to write an equation in physics and paved the way to Newton. You can see the two objects falling down, one big, one small, Plato was sure that there, the bigger one will arrive first to the ground, and he didn't let facts disturb him. So we should be aware of that. So the language of business, as we talked many times, is money. But the point about money is that we need to do equations. If you can't calculate, if you cannot write equations and understand what you're doing, then you will have a spreadsheet full of numbers. But it's meaningless, kind of.

So in order for it to be effective, it had to be guiding you towards a certain result that you can measure whether you solve the equation correctly or you didn't solve it correctly. And that's what we're building here. So, successful companies, I said it's profitable, and here's how we measure profitability. How long does it take for the company to become profitable and profitable again? Is cash generating okay in months? Did it take you two months to be profitable? 20 months, 200 months make a huge difference. So you want to measure how long it takes you to become profitable. The second modest investment, how much money is needed to become profitable again? It's a number, 1 million, 2 million, $3,100,000. How much money is needed in order to become profitable? Fast growing. How do you measure fast growing?

So we took the following formula and we said, how long does it take to pay back the investment? So we connect growth with the investment. Obviously, if you took $100 million investment, you have to work really hard to give it back. If you only needed a million dollar to be profitable, then it's much easier to bring it back. So that's how we connect into equations, basically, the business model we are going to talk about today. Okay, so what is a business model? In simple terms, how is your company going to make money? Business model. So business is about making money. How does the company going to make money? Well, it's a simple question with a very complicated answer, because there are many parameters that will dictate how your company is going to make money.

Today, we're going to deal with only one parameter, which is your pricing strategy. And you can see in here there is product service, customer profile, pricing, packaging, cost structure, gazillion things. And we will deal with them gradually in the next lectures. But we will start today with one, which is the pricing decision made when conceiving the business models are the most important ones. Why? Because once the company starts working, and especially as you start having customers, it's extremely difficult to make changes. So these things have to be thought out, experimented and tested as early as possible later on. Expensive as well as sometimes just you get, that's the way we're doing things in here. You go, keep going, and keep going, even though it doesn't go really well. So the building of the business model is iterative.

You come up with ideas, you change parameters. And as I said, the model allows you to measure three numbers, time to profitability, the amount of money you need, and time to return to investment. So you have three numbers you can compare. Is this business model better than the other one? Because you have only three numbers to look at them and you want them to be the smallest possible right. You want to be profitable in day minus one. You want to have zero investment and return it on the day of the first day. The lower the better. When you don't do that, then you hear pivot. We had to pivot, right? What does pivot mean? Pivot mean, wow, we took a lot of money, threw it out the window, and we start all over again. It's painful, it's expensive.

You really don't want to get there. So you want to pivot small pivots at the beginning, before you really make big decisions. Now, since business model is so critical today, we're going to talk about other people as well. So I'm not inventing everything. So there is this book, business model generation. After the lecture, anybody who wants to take a look at it is welcome to take a look, take a picture order it, whatever. Though I have to admit, I don't strongly recommend the book, but there are books that I recommend that you will see. So disruptive new business models are emblematic of our generation. Wow, I love these sentences. We're going to disrupt the world. Yet they remain poorly understood even as they transform competitive landscape across industries. Big words, I don't follow them. So here's the idea. Here you have a canvas.

You probably anybody that went to school and learned about it knows this canvas, and it has nine elements. Value proposition, customer segments, revenue streams, cost structure, key resources, channels, blah, blah. I'm not going to go into details into them because I don't think it's a really good model. But the nine building blocks are all interconnected. That's the problem with them. So you can't make a change to one without expecting a change in the others, right? If your value proposition is poor, your pricing is probably also very low, right? Because you don't give a lot of value. If your value proposition that you convince the customer is high, you can charge more. So they are interconnected you can't really do one without the other. Pricing and customer segments. We'll talk a lot about pricing and customer segments. So they're all interconnected cost structures and pricing.

You can sell something for less than what it costs you to build it, and so forth and so on. So how do you model all of these dependencies, and how do you measure and compare alternatives? As I said before, the model that we built last time and that we gave you as a homework. So you have a worksheet for that, allows you to take all of these assumptions and play with them. See what happens if I double the price that I sell. Well, I probably will then have to reduce the number of customers, but I can start playing with it and see what happens. And that's the most critical thing. These are examples from the book. Show it to you. You can see a lot of talking and people doing charts on the board. It's nice, but I like to calculate things.

Here's another example of it that's all taken from the book. Actually, I took it from online, but doesn't matter. It's from the book. And we have a spreadsheet that models how your business evolves over time. Remember that I said before, everything has to evolve over time, because that's the way businesses work. And the business model is a powerful tool to analyze and evaluate business options. And I put in here just a partial list of pricing models, the price, customer segments, payment terms, gazillion parameters. And these parameters actually have a big impact on what you do. As I showed you in the example last time, if you charge $1,000 a month or $12,000 a year, most of you will say, yeah, the same thing, right? It's $12,000. No, it's not.

One will require, the month will require a lot more money as an investment takes a much longer time to be profitable. So changes as subtle as that can have huge impact. And to see these impact, you need the spreadsheet and you need the model, and you need to know what to calculate. The same model, if done properly, can be used later on to measure your progress. And that's really important, because what you want afterwards is to take all the numbers you get from the accounting system and so forth and put them into something that you can understand, that shows you how your business really evolved and compare it to the model you built. Very, very critical. So what do you measure? I said before, profitable, modest investment, fast growing. Now, let's talk about the business model again. We talked about it last time.

I repeat, it on purpose. If I repeat it four times, there's a good chance maybe you will remember what I was talking about. So every business model starts with two very big revenues and expenses, right? So you put all your revenues in one place, you put all your expenses on the other one, and you subtract one from the other. Can't be simpler than that. If you take home a salary of $20,000, 20,000 shekels a month, and you spend 30,000 shekels a month, something has to give. If you bring home 30,000 shekels a month and you spend 20,000, you can take the 10,000 and put it as savings for your case, right? So if the revenues is bigger than the expenses, you're profitable. Otherwise you are in red, as simple as can be. Now, how do you income, how do you model the income?

Again, it's really straightforward. You just put what you sell, the income streams that you have a line per product or family of products. As the company matures a little bit, you usually have more than a single product. Many, many times you have services and consulting, they behave differently. And many times there are other sources of income. You put all of them on the top again by month. Then come the expenses. And they're usually divided into three very big categories. Sales expenses, which are cost of producing and delivering the product. Many, many times. Not everybody has a SaaS model, right? You just give a password and you are happy. So if you produce bread or shoes or cars or chairs, or whatever it is, or clothing, there's a cost. You need to sell it above your cost, or else you lose money.

There's a cost of selling the product. Regardless of how you sell it, there is a cost. So if you sell it in stores, then the store usually takes 2030, 40% of the price. So if I buy it at $99 in the store buys it at $70 or $60, okay? If I have salespeople, they usually get salary and commission. So again, it reduces the value of the amount of money that is available. Anything you do in sales cost money. And of course there is the customer acquisition cost. Then you have the second tier, which is stable. Usually it's called fixed expenses. But fixed expenses have a very clear meaning in accounting. So I didn't use the word fixed. And these are all the things that are not related. There are expenses, but they are not related directly to every single sale.

So it's the salaries of everybody except the salespeople. It is the rent, the engineering, the marketing, everything else in the company that is kind of stable, not related to customer acquisition cost or to sales. Customer acquisition cost is, for example, if you advertise on Google Ads and you measure how many clicks and how many of them convert, that's cost of customer acquisition. But if you just do press releases or you send emails or whatever, usually put them as general marketing. And then there is one time big expenses that happens in every company, you know, you have to build something. It's not a recurrent expense, you put it there. When I talk about a business model, I talk about operational cash business model, which is very different than what you see in p and l in accounting.

It's like you think about your business model as you think about your budget at home. I think what happened today is that people start thinking disruptive technologies, we're going to change the world. And they forget that businesses are actually very straightforward to understand. It's money in, money out, there's nothing else. Okay? So as long as you think about it in this very simple terms, you are in the safe place. So that's why I like cash, because it's very simple to understand. If you don't generate enough cash to cover your expenses, you need money from somewhere else. This is usually expensive money. Now every model is based on assumptions and that's the key issue here.

Now the main issue that I would like you to do when you build the business model is put all of your assumptions very explicitly and then think how you put them into the spreadsheet in calculable ways. Just having an assumption. Okay, let's do marketing first or branding first. What does it mean financially? That means probably I'm not going to hire the R and D team before I establish that, so I can move the cost of the R and D team to later on. But I have to put the money into the marketing. I need to bring somebody who will do something in marketing so it has expenses. Every single assumption that you have, like in the model we talked last time, right, which is attrition. You know how many customers will not renew, so you have to put that number in there.

You can say zero, all of them renew. But put this attribute or this parameter in to the model so you can start checking the impact of it. So the whole idea here is you convert every single assumption to something that makes a difference in the business model into the spreadsheet. And the purpose of the model is to test the different values of these parameters. So you really want to then start playing with it. Well, how fast revenues grow. So if I have one customer month one, two customers month three customers month four. Does it grow linearily? Does it grow by 5% month over month? All of these assumptions have to be put explicitly in the model. And the most important thing is, well, if I believe I will grow 5% month over month, what's the fuel? What's going to cause it to happen.

So it forces you to start thinking backwards from all assumptions about what do I need to do in order to cause that to happen and what happens if it doesn't grow that way? What happens if I only grow 1% months after three months, all of that you can text in this model a big benefit and this is really key. We'll talk about it later on. I'll bring examples. When you start with branding, first you have a chance to talk to prospects and potential customers. Right at the beginning, you don't have a product, so you're not committed to anything. And that's the beautiful thing about it. Once you spend ten engineers for two years developing your product, you feel that's what you're going to sell. And excuse the English, screw them, I'm going to find how they are going to buy this.

But when you start the other way around, you're not committed to anything. And you listen to customers because you have nothing to lose. You just listen. You try to tell them something and whether they respond to you or not. We had this example now with Iran in his little company, so we wanted to show them an example of the product. And I asked around, say, ask them what do they see? Don't tell them what they see, ask them what they see. And were surprised because what they saw is nothing that we thought about. They just immediately said, oh my God, here's what I see. So that's the beauty of branding. First you start talking to customers and you have nothing concrete that you have to defend. So you can test a lot of things. We will talk about it later on.

I give you more examples of what we do with the other company and you will see how doing things at the beginning gives you the freedom to really understand these parameters as much as possible. Okay, so instead of the nine elements of the canvas, it's easier to try to answer the following wh questions, right? What, who with and so forth. Why do I phrase them like this? It's just the other one looked so I didn't understand, what does it mean? Revenue streams and all that stuff. These are just simple questions that force you to start thinking, so who are the users and who pays the money, most of you will say it's the same. No? Well, in many cases it's the same. In many other cases, it's not the same. The obvious one are all the advertising models.

You don't pay Google a penny, right? So who pays the money? Other people you don't even know you see them, right? They are the people that advertise. That's the most, let's call it classical example. But it's beyond that. If you have ten b's, you are the user who pays the money, the company. Right? So you have here two elements you need to deal with. You need to have happy users, but you also need to have happy people who pay. And virtually in most companies, you will find that who are the users and who pays the money are not the same. Or there are slight differences in there. Even in b, two b company, many times the person who makes the decision is not the person who cares about the money, it's somebody else in the company who cares about the money.

And many organizations or companies that try to sell don't really understand that the person we are talking to don't care about the money. The other person cares only about the money and not about the product. And you need to play this very delicate dance. Why do they pay or not pay? Why is the value, you know, if you want them to pay, why do you want them to pay? And when you want them just to be user, not pay, why would they do that? What exactly do they pay for? Well, people think about the product, but in reality there isn't anything like that. Just let's take a CRM. How do you pay for a CRM? Seats, number of transactions, database size, number of records. Well, go to Amazon Services and the list of what you pay for can blow your mind, right?

You get a bill that is debt. I, you know, thousands and thousands of lines. So what do you pay for? Is actually fairly complex in many organizations and in many situations. And if you package it one way or another, makes a big difference. I'll give you another example that is very well known. A coffee machine and the capsule, right? You pay very little for the coffee machine. Why? Because the capsules are specific to that coffee machine. So they give it to you virtually for free in order to hook you. So you can start seeing how complicated and complex and innovative the business model can become just by asking these very simple wh questions. Where do they pay? What do you mean where do they pay? Well, if you sell through stores, they pay the store, not you. If you sell through resellers.

They pay the resellers. Okay. They buy. The resellers buy from the resellers. So again, it's another layer that you need to think about. How much do they pay? We're going to spend all of the meeting today on the. How much do they pay? When do they pay? Remember the 12,000 or $1,000 a month? Do they pay net 90 net 180. Cash on hand makes a huge difference on the amounts of money you need. Okay, how do they pay? Can they pay on the website with a credit card? Do they need to call you on the phone? Do they have to talk to a salesman? See, all of these very simple questions make you start thinking, which is why I like to convert this model from here. That is very nice, but I think is not well understood to something like that.

And every one of those answers had to be embedded in the model that you put in the spreadsheet because it has an impact. Okay, now we go to a book that I do recommend. It's called the innovator's dilemma. And it's a deep and revealing. And we'll read this analysis of why highly successful, entrenched companies miss new emerging technologies and trends and lose market share to new upsets. Basically, you look around and you can see companies come and companies go. We are now, just now see Nvidia, right? Flying through the roof. And intel is not. Why? Why did intel lose the cell phone market? Why are they losing now the server market? Are they idiots? They don't know what they're doing. So Clayton Christensen, I think he's one of the smartest guys in business.

He started with the assumption that successful companies are not successful companies because they're idiots. So he asked a simple question, if they're not idiots, and I see it repeatedly, that companies lose markets to upstarts and they are not idiots. Okay? They know what they're doing. Why does it happen? In one of the following lectures, I will give a much more detailed explanation. But meanwhile, let's talk a little bit about it. He looked at the hard disk market, and the reason was that within a span of 20 years, there were about five or six generations. Every generation was a new set of companies. So it's like the fruit flies in genetic research, which means you see generation after generation, very quick timeline, and you can ask the same question and see the answer. So that was his fruit flies.

But later on, he moved it and looked at other industries as well. Would Tesla beat the rest of the car industry? We don't know. Is intel out of the game? Is Nvidia going to take over? We don't know. Since reading books is tedious. I checked last night and indeed there are tons of lectures by this guy was born in 52, died in 2020 out of cancer. Unfortunately was living in Boston. He was a Mormon. There's a huge Mormon church in Boston. If anybody went there, you will see it. It's on the top of the hill with a huge statue on the roof. And he did his master's and PhD in Harvard. He was a professor at Harvard and very successful. Second book is called if there is a dilemma, there is a solution, right?

So the author identifies the forces that cause managers to make bad decisions as they package and shape new ideas and offer new frameworks to help create the right conditions. This book, if you want, and your english is not as good as others. This one was translated. I found it, but it seems like I only found the picture. I don't know that the books are available, but there is a translation of the book if you want. And this is a book I want to talk about as well. So I will talk later on different lectures on the innovator's dilemma and competing against luck. And competing against luck. I will read it because I think it's important what it says in here. After years of research, Christensen and his co authors have come to one critical conclusion.

Our long held maxim that understanding the customer is the crux of innovation is wrong. Understanding the customer is wrong. Think about it. Customers don't buy products or services. Customers, they hire them to do a job. Understanding customers does not drive innovation success, he argues. Understanding customer jobs does. The jobs to be done approach can be seen today in some of the world's most respected companies. I'll bring one example or several examples at the end. Okay. This is a really good book worth reading again for an hour. You can just go on the web, listen to a lecture. We'll get all the information that you need. Bear in mind, most of these books could have been an article, but nobody would buy an article, so they have to write a book.

But if you listen to the lecture, you get the article and the book in an hour. So. And that's a free advice. I'm not making money out of it. Yeah, the problem is that people like me, who made all the mistakes, appreciate what he writes. Young people read the book and say, what does he know? You need to have the scars on your back to say, yeah, he's right. He's on to something. Okay, now let's focus on what I wanted to talk about in this meeting. Pricing. Okay. How do companies or service providers set their prices? Okay, so you guys come up with a great idea, disruptive, innovative, whatever you want to call it. Idea. You want to go to the market, and now you need to tell customers or prospects it's going to cost you how much? Right.

How do you decide what is the price? That's the main question I want to bring up in this meeting. So first thing to understand is that price is essentially an obstruction. It's some sort of an obstruction. In the old days, we exchanged, I had lamb, you had bananas, and I saw that bananas are better than a lamb. I gave you the lamb, I took the bananas, and were happy. Well, obviously for that I need either a lamb or bananas. So people invented money, but how much money is a lamb worth and how much money the bananas worth is a really good question. And it becomes much more complex as we move up to more sophisticated things. So they all use and need some frame of reference. Okay? And that's really critical. And I explain to you why.

So most people have a very strong intuition that there's price elasticity. If I ask only for a dollar, I'll sell much more than if I ask for $10. And if I ask for $10, I'll sell much more than $100. It's so entrenched, that is hard even to convince people that it's wrong. What I'm trying to tell you in the next 45 minutes or so is convince you that this is wrong. It's totally wrong. Price is in the eye of the beholder, like beauty, and you have to think about it as something malleable that you can position yourself and change it if you're smart enough. So what is the frame of reference that people use? So the first and most obvious one is if there are similar products like that in the market. So there is a frame of reference right there.

If I come to and I say, this shirt, I sell it to you for $200, you will immediately say, wait a minute. You know, I can buy a shirt like that, exactly like that for $20. So what's the difference? Tell me exactly why do you want $180 more, right? And I say, oh, you know, this is from a special fabric, blah, blah. So when I say same up or down, it's really critical if the product you want to put to the market has already a clear frame of reference. And we will, I'll show you examples later on, then you need to decide what your strategy is, do you want to be more expensive than your competitors and position yourself as a premium? Do you want to be cheaper and say, I am the value producer, or do you want to be the same?

Each one of those is a very valid position, but you need to think about it based on the value it brings to customers. Right? So we're always on value. We think b two b because most people don't calculate value. But that's not true. Think about corona vaccination. People were scared to shit. They were willing to pay whatever it is to get the vaccination right. Why? Because they didn't want to die. As simple as that. That's a high value, not to die. So they were willing to pay. If, God forbid, you have a disease and there is a procedure that costs a half a million dollars, you know, you start with raising money or whatever, so companies know that and they take advantage of it, you can take a different approach. You say, all I want is to pay the bills and make some money.

So if my bills are 100,000 a month and I sell 1000 units, so I need more than 100, that's what I charge sometimes. And we talked about it last time, you say, if it cost me $10 to produce, I need at least twice as much, probably five times as much. That's the price. So I'm just showing you the frame of reference that we talked before, okay? Sometimes the price is regulated. Taxicabs, milk, eggs, in Israel, whatever, in every country there are some sectors that are regulated. So the price is not fixed by you, it's done by somebody else. And obviously the last one is I'm going to charge as much as customers are willing to pay. How do I know how much they are willing to pay? I'll try, I'll try with a million dollars nobody bought.

I'll go down to a half a million. Nobody bought a till I get to a dollar and somebody took it from me. Right, but how do you put the prices so they can be based on market segments pay different prices. Okay, so depending, and I will show you a million examples soon, how different marketplaces will pay market segments. Sorry. I will pay different prices for basically the same product or service, which tells you right away there is no real price for the product or the service. It's what this specific market segment or customer is willing to pay. And the second is positioning. What is the message you send out to the market? If you try to sell perfumes and you sell the perfume for $5 a little bottle, I can assure you nobody's going to buy it, but it's cheaper than everything else.

That's exactly the problem. That's exactly the problem. You send a message that you're going to insult your lover or wife if you bring her that it has to cost at least $200 for a small bottle. Now you really show how much you love her positioning. Okay, I'll bring clear example. Cars. Why cars? Because it's the same company. So Toyota has Lexus as the premium. Nissan has Infiniti, Honda has Acura. But why did they separate that into two different companies? That if you didn't know that Toyota and Lexus are the same, you wouldn't know, because they wanted to completely separate the user experience. They have different showrooms. You go to a Lexus showroom, and the first thing they do is you sit there at the lounge, they bring you tea, even without your daughter around.

They give you cookies, and it looks really nice and clean. And, you know, and if you go to a Toyota dealership, they kind of look at you and say, how can I help you? That's the difference, right? When you want to do the service, they say, don't worry, sir, we'll come and pick up the car. We'll leave you with addition with another car for you to use today. And we're going to swap them because it's a Lexus and not a Toyota. So companies make this very different positioning very visible. For example, you want to go out with your husband to the opening night at theater, and you want a new dress, go to a hairdresser and a makeup artist. How much would you pay? There aren't that many. How much would you pay for it? The last person. Libby, how much would you pay?

Let's take 10,000 shekels. Thousand shekels. Okay. All right. But obviously, and I'm very fortunate now to have a daughter who is about to get married. And I see the prices, and I'm shocked because it's like, okay, this is for a wedding. Then everything is ten times more expensive, right? So why positioning, right? Come on. It's a bridal gown. It's a bridal this and a bridal that. Forget it. Okay. How do lawyers charge? I brought it up last time, but I want to give it a little bit twist this time. What makes the most sense is by the hour, right? I bring you my time to help you. So I charge 1000 shekels an hour, 2000 shekels an hour, 500 shekels, whatever it is that I value my time. Okay. Usually with lawyers, you pay by the minute.

And therefore, I ask them not to tell me jokes because these are the most expensive jokes ever. So please, let's get down to business and just focus. Okay? So many lawyers would charge by the hour, but then there is retainer. What is retainer? Retainer basically said, I want to get a discount because I'm willing to guarantee to you that I will take 10 hours of your time every month. So for these hours, I want 20% discount, but I will pay you even if you didn't use them. Okay, so that's retainer. Still very close to by the hour, by project. Why? Because these are routine things. Notary filings to all of these things. They charge you. Why? Because they know it takes ten minutes and they cannot tell you. Okay, I'm going to charge you ten minutes and $25 of shekels.

So they take a fixed price. It looks okay, basically is a hug the price based on the time, because they don't even do it. They have a helper. Who goes and does it? The secretary. This is where I start getting really angry. So percent of the deal is the lawyer working harder. If I sell an apartment for 2 million or 5 million, no, that's exactly the same work. But somehow they were able to get everybody to pay a percent of the deal. It's even worse when you get to m and a transactions, right? If I sell, if I sold zoom for 100 million or 200 million or 500 million, it's the same exact work, believe me, not a single hour more. But they get a percent of the deal. Why? Because they could. So that's a positioning issue.

Again, I show you that the value is the same, the prices are very different, and this is even the most innovative one, is they don't want you anything. They say, we will do all the work. Okay. We're going to run after this company and file class actions and whatever. And if we are successful, we want 30%, 40% of the bounty of what we do. If it's not a class action, it's called ambulance chaser. Right. They see an accident, they run after the. The guy. So you see how creative the same exact product, hours of a lawyer are being charged. Again, I'm trying to shake the notion that you have that the lower the price, the better we are. It's not true. Just not true. And if you haven't yet understood it, I'll get to it later. Charge high. Very high. Why?

Much easier to be profitable. Okay, so your job is to figure out how to charge high, not to compete on price. Okay, how do dentists charge by procedure? Annual checkup, fillings, root canals, etcetera? Why don't they charge? When the patient suffers a lot of pain, you walk into them and say, I'm dying. You have to do something right away. Okay, for you, 10,000 shekels. Why don't they do that? I've proven you that it's the same work, right? That's not the point. In my mind, the issue is it feels horrible because the person walks in with pain and you start kind of negotiating. So I think that's the only reason. This example just shows you again and again that prices are elastic and you will see more examples. Really something that will make you think again about pricing.

So let's take the most simple commodity coffee. Okay, so this is the shoe for sale coffee. And I highlighted 775 per 100 grams. So this is the elite one. And if you look on the boxes, somebody made a point of trying to tell you it's basically the same coffee. And I would believe that they buy the coffee from elite and they just put it in a box like that. But this is elite. So you pay $9.95, $2 more, two shekels more, right? This one is exactly the same as the previous one, just lessen. So now you pay 20 shekels, not $9.95, not ten shekels, twice as much. Why? Because this is one of the finest ideas ever. If you feel that you really can't, you know, waste coffee, right? You don't want to buy. This is about 100.

No, 300 grams, I think 200 grams. It says 200 grams. I only need some for travel. Right? So I'm not going to buy this. So you pay twice as much in order to be frugal. Again, market segment, I'm trying to show you again this idea, very deep idea of market segments. Then this smart Alex Davidov decided that they're going to present it in a nicer bottle, and they charge $24.90. And the caffe Joe tablets, 55 grams, it's 30 shekels, same exact product prices, four times as much. Why? Because we all buy it. If you can charge more, it doesn't cost them even close to this number for producing that. So the cost of. I know, but the cost of the ingredients in virtually all of these products is almost. No, not relevant. That's the scary part.

If you look at the cost of the material in the foods you buy, it's the smallest part of it. Everything else is the positioning, the advertising, the branding, the whatever you pay for them to sell to you. But let's move on because I have many more examples that will convince you that price is elastic, malleable. And you should think a lot about the frame of reference. Remember what I said? Frame of reference is what dictates how much people are willing to pay. Okay, so this is a tv cost, 569 99 shekels. $99 or in simple Hebrew, $570. But you see, again, see that we all fall for it, right? Even though it's one penny, but we all fall for it again. So I'll tell you the story. When we arrived in the US, were very blessed.

We had two kids and we needed to buy some furniture, beds for the kids. And there is not far from Boston, about an hour out of Boston, a city called Gardner, which used to be the center of furniture in the Boston area. So we drive there, we go to see furniture. It's boring. So I tell my wife, keep looking. And I started wandering along the street. And very quickly I realized that this is a dilapidated neighborhood, very poor neighborhood. So I walked the along the street and I see a pawn shop. You know what a pawn shop is? I never seen a pawn shop in Boston. And then I see a store. It's called furniture rental. Rent a tv. This is a real advertising from the web from a week ago. So people don't have money.

They don't have $570 to buy the tv, so they rent it. If they kept it week after week, they would have paid 2367. So we always think that higher prices are for the rich people. The answer is, rich people pay the least amount of money. That's the reality. I don't pay in the bank at all. Why? Because I have enough money in the bank. I don't have to pay anything. Many of you have to pay in the bank. Why? Because you don't have enough money. Right? Doesn't make any sense. It's not fair. Well, for me, it's not a lot of money in the bank. But this is scary. I really got a shock when I walked into that store and I looked at the prices. Same thing about groceries.

More established people have a car, they go to the big stores and they buy the big quantities and they pay very little. Poor people don't have a car. They pay a lot of money for everything. It's just breaking your heart. So think again about it. That prices, when I say positioning the price, it's not always that the people who can pay more. It's many times the opposite. Okay, let's talk a little bit about this, and we'll take a break in a few minutes. Airline tickets. So they have a problem. They know that business people will be willing to pay more money than tourists. But it's kind of very much like the dentist. You try to buy a ticket and say, are you a businessman? You travel for business. Oh, it's twice as expensive as we say india. It's passnish. You can't really do that.

So how do you differentiate between business travel and tourists travel? I'm talking now the US. Well, they found a trick. What happens with business travel? Business travel people travel a lot, especially if you're a consultant in McKinsey or something like that. You have customers all over. So Sunday night, you hop on a plane, you go to where your customer is, check into the hotel. Monday morning, you are at their offices. You work till Thursday afternoon, you hop on a plane, you go home. You are at home on Friday, Saturday, Sunday, your wife is happy. You bring a good salary. Everybody is happy. So you don't want to stay over the weekend because you have a family. Aha. The hallmark of business people is they don't want to stay over the weekend. Boom. Prices go up. Now there is a problem.

Who pays for the ticket? The company who travels? The person. So how do you make sure that the person is not going to be sensitive to the price? What do you do? Clubs. Clubs. Points. Exactly. Who gets the points? Only the traveler, not the person who paid. Right. So the whole idea about the points was, okay, you pay a lot more. Actually, the company pays a lot more. But you're going to be very loyal to me because you collect points that you can use, not the company user. Who pays? Remember, I'm trying to take a lot of examples and break them down to show you the dynamics of how these things work. And you, as companies, as entrepreneurs, want to take advantage of it. Okay. Internet access. Businesses are willing to pay more. So what do you do with that?

Well, I have to tell you, we are a company and they wanted to charge us more. So what do they do? They guarantee an uninterrupted service. Most of us who use now fiber optics at home, we get uninterrupted service, or basically we get the same interruption as you get in your business. There's no difference. It's the same line. But here's what they do. They don't offer residential plans to business addresses. So Ayala is laughing because we said, okay, don't worry about it. Just give me whatever you can give me. And we live with a small residential one. But yeah, they wanted 2000 shekels a month. We pay 100 and something shekels a month because I refuse to be the business who can pay more. And that will be the last thing. Before we take a break, I want to give you some questions.

The flight is about to leave in 2 hours. Those who didn't buy a ticket, these tickets are wasted, right? Once the flight takes off, you can't sell tickets anymore. So should the airline offer half price tickets to lure customers? What do you think? So here's how it was kind of resolved. So I'm sure you are aware in Israel you can have like, last minute flights, right? So there are companies that basically collect all of these last minute flights. And people show up. I don't know now, but I remember before people would show up at the airport, they had a suitcase ready. They didn't know where they're flying even. But the moment there was like a $50 ticket to Athens, boom, they were there. They were going on the flight. Because $50 is something you have to do. But let's take it this way.

The day before the flight. Now, I'm not talking about 2 hours the day before, should the price go up or go down or not change the day before, they know it's not a tourist anymore. See, 2 hours before, it's not a businessman because it's kind of last minute crazy. But a day before it's not a tourists play ahead. So, yes, the prices go up. These are people that have to go. Same product, same everything, different market segment. It's p.m. Your hotel has available rooms. Would you offer last minute half price rates? I don't know the answer. I've seen this way and that way. I've seen hotels that reduce the price. I've seen hotels that don't. I don't know. a.m. p.m. Your supermarket will close in 2 hours. Would you offer big discounts on perishable produce?

Well, I don't know if you're aware of it, but there is a company, actually, that does have an agreement with restaurants and other places that they come to the restaurant, they collect the stuff and they ship it to you. You don't know what you're going to get. Okay. It's just whatever is left over before the restaurant closes and you pay 50%. Yeah. In Israel, there's an app as well. There is what? There is an app as well. Yeah, exactly. Again, same food, different market segment. Okay, let's take a break and we will meet again at 430. So what I want to talk about now is small decisions, big impact. So I want to show you how slight changes in the business model that companies do can have tremendous effect and impact on the market, on customers and everything.

So we moved to Boston, to the US in 1989. At that time, cell phones were pretty entrenched in Israel. Everybody had a cell phone. And when I show up in the US and you ask somebody, what's your phone number? They don't give you the cell phone number. And most people did not have a cell phone. So I was kind of shocked by why. So the US is a pretty sophisticated country, at least as much as Israel, Europe, you know, Nokia from Finland, big technological engine for Europe, right? Far out. So what's the difference? Why? And here's what I found. When you call from a landline to a cell phone, there is a connection. If you now have a basic phone at home and you call cell phones, you see there is a special price for connection.

And the same goes between cell phone carriers in Israel and in Europe, there are special area codes. So I know that if I dial zero five, I'm calling a cell phone. In the US, you don't. My cell phone number is 617-501-6996 you can call it. I don't have it anymore, so you can call it. So in the US, phone companies had a hard time figuring out when they have to pay a connection fee to a cell carrier. So what did they do? They moved the price to the ink to the carrier, which means if you have a cell phone, if somebody calls you, then you pay the connection fee. You pay for the minutes. Now let's think about it. So I have a cell phone and somebody says, can I have your phone number?

What are the chances I'm going to give you the phone number? Because I know if you're going to call me and start talking to me about your great idea and that they sell insurance and what have you, it's not enough that they bother you have to pay for it. It's bad enough that you have to very politely say, I'm sorry, but I'm not really interested. No, no, you have to listen to me. No, I don't want to listen to you. Right. Especially not that I pay per minute. So what people did is they only gave the cell phone number to close family members, so nobody called them. Close family members usually don't call you, so why do you need a cell phone? So there were no cell phones, literally.

And so what happened is that until they started changing the regulation and everything, cell phones were way behind Europe and Israel. So here's a very simple thing. I wasn't aware about the area code and the connection. I just thought that why is that you pay for incoming calls only later on I found out this explanation. But this is a small decision that made a huge difference in the pace by which cell phone numbers. That's also the reason why in Europe and the rest of the world, GSM, everybody agreed on the standard because it was very popular, and GSM became the popular number in America. I had three or four different technologies because they were islands, kind of. They didn't think about it. So that's one example.

Now, phone bills, I like the phone system and the communication because it's something that is not tangible, right? So you can make decisions however you want, so you can see the decisions. So cell phone bills used to be by the minute, by the distance. When I arrived in the US, if you made a call from Boston to New York, it was one price. If you called California, it was a very different price, very high price. Any idea why distance made a difference? So let me take you 100 years ago. Think about 100 years. Yes. You had to go and they said, sir, just a minute. And they did this, and then they moved to the next one. Sir, just a minute. Right. So really it was more expensive. When it all goes through automatic exchanges, it doesn't make any difference.

But if I can charge more, why wouldn't I charge more? Right? Simple. It's really simple. Because people were used to pay by that. One of the most profitable lines of business for at and t in the nineties, 1990s. You know what it was? Renting out the phones, the back elite phones for $10 a month for old people who didn't know that the world has changed. So there were tens of millions of people who paid rent for these very old phones because they got it in the bill every month and they paid it. So, yes, that's the way to make money. Connection fee, international calls. That's why Amdocs became a big company, because it's so complex to figure out how much you pay per call that Amdocs had legions of people writing code to calculate this. What happened today?

Flat fee per month, fair use, including plenty of Internet connection. Right? Nobody here pays per call. Nobody here pays per distance. Nobody here pays for anything. Why? Because it's much simpler. And therefore the use went through the roof because you don't have to think about it anymore. So when you build a business model, a pricing model. One of the things that my CFO told me, Washington, never ever make, people have to think before they click on something. Because the moment they think before they click on something, you lost a customer. So were selling data. I zoom in for. I think it was the competition that once one company did it and people said, that's what I want. Because it's simple. I don't have to think. It's all included. You know, that's why people like to go on vacations. All included.

Because I don't have to think there is a change in technology, but, and we will get to it in a moment. You will see what the questions are. Okay, so cell phone international packages, they are not anymore like that, right? So you pay per gigabyte, you pay for a lot of things. Why? Mainly because they can. So I don't think that the cell phone companies, when they create an international package, pay more. But they get us at a time when we have no choice because we want to keep the phone number. Right. That's why people do these programs. They want their phone numbers. So if you want to call them, they can reach them. So they can do it. Okay, so let's go on to additional things. Sms messages, small cost per message, now included in the personal use. Right? Simple.

WhatsApp messages are free, but how do they make money? When WhatsApp was acquired, they had like, I don't know, 20 employees or something like that, and 400 million users. It's an amazing story. And Facebook wanted to buy them because anybody who has 400 million users is a threat regardless of what they do. Okay. So they needed to take them out of the market, and so they were willing to pay $18 billion to buy them. And WhatsApp didn't want to get bought because they were very happy. They had a lot of vc money. They had 400 million users, mainly not in the US, by the way. Even today, WhatsApp is not very big in the US. So they had a condition for the purchase. The condition was no advertising and no change in the business, which is why you don't see advertising on WhatsApp.

They started making money recently when they realized that a lot of companies want to use WhatsApp for communication with customers. So you now go, you get a lot of companies that tell you, if you want to talk to use WhatsApp. And that's how we communicate. And that costs money if you want to send messages for TikTok. Right. How much costed it? No, WhatsApp, it's very expensive. Then I go out, right? So that's how they make money now. But that took them a long, long time before they started making money. Email service, on the other hand, is free now. Think about the following. What if it wasn't free? Let's say it was just a fraction of a cent per email. How many spam messages would we get? Well, I was in the midst of. Because were selling email addresses at Zoom info, right?

So were at the center of the storm about spam. And I never understood why email is free. Because free means abuse. If it's free, I'm going to abuse it. I don't care. I will send 2 million emails, 10 million emails, 100 million emails. I don't care that I get 0.001% open rate. So I send a billion emails. If they were charging even a small fraction of a penny, that would stop. Internet connection used to be by connect time and megabyte transferred it. If it was not priced as a flat fee, would the world look the same? Think about it. If you had to pay per hour, all of these companies would look very differently. So small decisions. Why at the beginning, we had to pay per connect time, why did it change? To your question, technology allowed it, but the technology is expensive.

So what happened? What is net neutrality? Anybody knows what net neutrality means? Okay, so net neutrality is a rule of the Internet that says we are all treated the same if nobody pays per megabyte, I don't pay for megabyte. If everybody pays per megabyte, I'll pay per megabyte. Why? Because the carriers said, I don't know, like 60, 70% of the traffic that we have to support comes from these companies, five or six companies. They said these companies have to pay the bill. We carry them on our shoulders. It doesn't make any sense. We don't want the users to pay. They have to pay. There's a huge fight in the US over this net neutrality. It looks so obscure, net neutrality. But this is really the core of the issue. It costs money. Yeah, it costs money to produce all of these things.

And there are very few companies that produce most of the traffic. Okay, still right now, net neutrality still holds and they don't pay anything additional. But who knows? It might change and somebody that people who spend the money should pay the money. Don't worry, it will come back to us. So Netflix will become more expensive and YouTube will, blah, blah. Okay, so let's go back to the pricing model. So until now, I told you about everything. Everybody else in the world. But let's go back to us. So we want to be profitable, right? Want to be fast growing and modest investment. So I'll tell you a secret, but please don't tell it to anybody. It's much easier to be profitable if you charge high prices. Don't tell it to anybody. But high prices generate a lot more money than low prices.

So when we work with companies, we always tell them, try to figure out the positioning and the market segments that will allow you to sell at a high price because you will make a lot more money. What is the problem? I'll get to it. It's much harder to build successful companies by competing on price. If there is a price and you try to compete on the price, it's the only competition you do. It's extremely difficult. Very, very difficult. So don't even try it. And there's not so much price elasticity as you think. It is much more effective and efficient to look for a market segment that are willing to pay high prices, provided you position the product and the service correctly. Now, what is the problem with that?

The problem is that once you position the company at a certain point, as I said at the beginning of the lecture, very hard later on to change it. If you charge high and a competitor comes in at a low price, it's tremendous pressure. So you have to think about, what am I going to do about a competitor that will come in at a price below me at a product that keeps improving? We've seen that at Zoom info many times. So we came in very high. Why? Because I follow my own advice. So if you try to follow your own advice, you start charging very high prices. Right. And then we wanted to offer a lower end product that can be sold by e commerce. Remember the how people pay, right. That I put at the beginning. So we sold through salespeople.

You wanted to buy Zoom info. You had to call. They were talking to a salesman. We had like a $5,000 minimum. We wanted to sell maybe like $20,000 minimum. That was the dialogue. People wanted a $99 something. And every time I tried to introduce a $99 something, I had tremendous amount of resistance. From whom? From the salespeople. Why? Because they said, wait a minute, I work with a customer on a $5,000 deal, and they said, wait a minute. You know, I went on your website and there's a product for $99. Let me try it first and see if it will be enough for what I need. And so the salespeople came to me and he says, if you want to hold us to quotas, take this off the site. I tried five times. That means I failed in the first four.

Actually, I failed all of them was never able to introduce a low end product. So it's not easy. But I strongly recommend go high. But think, what do you differentiate? And make sure that you have answer for the low end of the market. In that case. In that case, yes. But you have to understand your own business. But don't fool yourself. There will be a competition from the low end. And you want to understand. You don't have to execute it right away. But you need to already create some sort of a separation that you can have answer for the competition. In every company it looks different. And I'll give you examples in a moment how they did it. But this is really critical. So go high. Find the market segment that will pay. Find a positioning that will hold it.

But be aware that competition will come and that you want to have answer maybe a year from now, two years from now, three years from now, doesn't matter. It will come. Here's a good example. You have individual users and you have business users. We said it many times in the presentation. Businesses are willing to pay more money. Individuals are stingy. They don't want to pay more. How do you differentiate? So we talked about the airline tickets and we showed you how they did it. But let's look at some companies that I think did a fabulous job. And again, I bring it as an example. Zoom communication. That's not Zoom info. That's the zoom we all use for video conferencing. Okay, so what they did, which I think was brilliant, if you are a user, an individual user, it's free.

God was with them and with the corona. And when the corona broke out, they were there and they became like the brand name. Right? Let's have a Zoom call. Even if you do it through Google meeting or whatever, it's a Zoom call, right? So they conquered the market with Zoom, but also because they had a good product and it was free. Businesses, on the other hand, start at 1250. Most of us pay more. I don't remember how much we pay, but we pay more. But what's the trick? How did they differentiate? And they differentiate by the call times out after 40 minutes. That sounds like stupid. What's the problem? So I'll call again, right? Positioning, right. I'm a big company. I'm trying to sell you something for $10,000, but I don't have the money to pay Zoom, you can't afford.

You look like an idiot. So the beauty of what I'm saying in here, because the alternatives are very well known and I think stink. The alternatives are, I'll give you it for two weeks trial. I don't try anything because if I like it, I get stuck after the two weeks. If I don't, I wasted time. Why do I want to do two weeks trial? It doesn't make any sense to me. Either you give it to me or don't give it to me. Right? Okay, you can do ten transactions a month. I don't like all of that. I don't want boundaries around me. This is not a boundary. Right? Nobody really cares if I call my daughter and after 40 minutes I say, okay, I'll call you again. It's not an issue even. It doesn't bother. It doesn't stop us.

But psychologically, companies can't do that and individuals don't care. That's why I said, this is genius. So when you try to differentiate markets, you really have to be smart. That's why I bring these examples, because the obvious ones are the obvious, and usually they don't work well. They bother people. Let's take another one. Monday, individual free business, $9 a month. What the trick is they give you by the number of users. So supposedly two users, when doing it just for yourself is like, you know, having a monologue. You know what the joke about the monologue and dialogue, remember that? It's an old joke. A monologue is one person talking to himself. Dialogue is two people talking to themselves. So not my job. So anyway, the Monday allows you to do two people talking to themselves.

And obviously at companies, you need more than two seats. And that's how they differentiate. Slack individual free business. Again, very low kind of price per user. But the trick is history. The point is very important. People in companies want the history. That's basically their record of what's going on. So they keep everything in this, in the history. So having a 90 day history is a huge handicap for companies. It doesn't bother people so much. So you see in here how each one of these companies, my favorite is the Zoom communication, because I think it's so smart that such a subtle change made a big difference. So the price of anything is always within a frame of reference and in the context of something. I keep saying the same thing in different words, in different positioning, but I say the same thing. Price is nothing.

God given. Price is something that is always related to something else, related to who you talk to, related to what they do, related to what you do. It's always related to something. And the positioning and the pricing are closely linked. So what you create in here is a two way communication between your price and your positioning. So let me tell you a story, and thanks to Tehila, who gave me the story, the beershe. So, the diamond industry. Until the end of the 19th century, diamonds were very rare. They had a few gold diamond mines india. Very few diamonds reached the market. Nobody cared about it. Late 19th century discovered huge deposits of diamonds in South Africa. South Africa was part of Britain, Great Britain. So british entrepreneurs or investors started to invest there.

And they had many mines and they started taking large quantities of diamonds. The only problem is, what do you do with diamonds? Nothing, right? What do you do with diamonds? Nobody eats them for breakfast. Nobody needs them. So prices went plummeted. But they were smart, they were all british, and they figured out they're going to lose their shirt. So they came together, all of these investors, and created a cartel. The name of the cartel is the beers. Why? Because South Africa was also Dutch. So I don't know where the name the beers came, but they created a cartel. And the first thing they did is they made sure no diamond. Washington sold out of the cartel. Even today, virtually all the diamonds go through the beers. Okay? So they controlled supply. That was the beginning. But what do you do with diamonds?

So in 1938, they went to an advertising agency, I don't remember the name of it. And they said, how do we create a demand for diamonds? So they came up with an interesting idea. But before that, I want to ask a question in here. For those of you who are married, please, those of you who didn't give an engagement ring to their wife or a wife who didn't get an engagement ring, please raise your hand. You didn't give a diamond out of here. Shame on you. Look at that. You see? So they came up with this brilliant idea that engagement rings are what you do for engagement. An engagement rings has to be with a diamond guaranteeing demand. Okay? Now, how much should you invest in the diamond? In the wing? So that's very late.

And I became aware of it only a few years ago when I was still in the US, when somebody told me, well, you don't know, it has to be at least three. Three salaries. Good. You see, I'm not inventing it. Three salaries, which can be a lot of money. So if you don't spend three salaries on your engagement ring, you don't appreciate your wife and you don't want to look like you are stingy on your wife. That's the last thing you want, right? So, very good. But how much is it really worth? So here's the catch. If you go back to the store and you say, I want to, you know, we got divorced. I got back my diamond rings. Three salaries is a lot of money. Here's my diamond ring. Can you please give me the money back?

Now, the stores make about 50% or even more on the diamond, so they have zero reason to buy it from you at full price. So they would, at best, pay you what they paid for the diamond, which means you paid, let's say, $20,000. You're going to get $10,000. You're pretty pissed off because everybody told you that diamonds keep their value, but they don't. How do you deal with that? These busters are smart as hell. Diamonds are forever, right? Don't ever give them out. Don't ever give them back. They are forever. You get them, you hold on to them, because they always keep their value. So keep them for bad times. It's the biggest positioning pricing idea ever. The reason I tell you this story is, again, try to have you understand how price, positioning and market segments are all tied together. The market segment.

Here is one. Engagement rings. It's the only market segment. But they built a huge business out of this market segment. What is this building? Anybody can guess. Church. Another guess. Church, right? Obvious church. Why do you say obviously church? Okay. Why would a Williamsburg Savings bank look like a church? The church. You go. And in church, there is somebody you can really trust. God, right? In God we trust. I go to the church because I trust God. I go to the bank. I want to put my money, my last penny, in the bank. I need to trust the bank. So the best way to convey to you that you can trust me is to look like a church. If you go in New York and you walk into any of the high rise office buildings, they all look like basically temples, right?

The temple of power. The Temple of reach, the temple of something. They make sure you stand there and you, like, open your mouth and you say, oh, my God, so much money went in here. Why? Because it creates trust. It conveys power. So that's positioning. What are these? Watches. What else? Anything else? What are these? All right. Well, all of you failed. Because remember I mentioned before, jobs to be done. So if we don't look at those as watches, but we look at the job, that people wear these watches, then the answer is trivial. So the first one is Rolex. It has nothing to do with time. It has to do with positioning. I can spend $20,000 on having a stupid watch. That means I probably have $2 million because I don't care about the $20,000. It's small money. Right. Conveys a message.

The second watch is a swatch. What job does that feel? Accessory. Accessory. Right. It's my clothing. You know, it's part of my decor. The third one is an apple Watch. What does that fulfill? What job is the apple Watch? Gadget. You know, if I am a gadget freak, I will go with that. I'm not a gadget freak. Always is. It's not. Okay. I am on the fourth category. The fourth category is the Timex one. The people who say, all I want is to know what time it is. I'll pay $30, and I'm done. So this is really important because here's the first example of jobs to be done, what I'm trying to do in here, and that's preparation for the next, or the second next presentation about jobs to be done.

If you stop looking at it as what it is and you start looking at why people use it, what is the purpose? What's the job they're trying to accomplish? You get a very different market segmentation. Utterly different. Why would anybody pay $20,000 for something they can buy for 30? Does exactly the same thing. Shows you the hour. Right. Because the job is different. It's not the same job. It has nothing to do with a watch. The job is to show I can spend $20,000, or the job is I'm frugal. That's the job. Okay. So you can start seeing in here that the same exact instrument, the same exact product has very different jobs to be done. Another example that he brings in the book is olive oil. Olive oil. What can be different about olive oil?

He says, because olive oil is just the product. But what do you try to do? And then you realize some people use it in order to prepare the surface so that it won't be sticky. Some people put it in salad, which is a totally different job. Some people fry in it. Each one of them is a very different job. So when I go to the super, my wife says, can you bring the spray? Why? Because she wants to use it so it won't be sticky. And it's very different than the olive oil she uses for the salad. So these are examples of jobs to be done. It's olive oil. It's olive oil until they put it in a spray. My wife used it with this. I just put it there. Think about it.

Then you will realize at the end of the day, it's olive oil packaged differently for a different purpose. Jobs to be done. That's all. Okay, talk a little bit about the product that we showed last time. Chemos, the bottle that boils water in three minutes. If you really want to see the YouTube again, I won't show it now. It's really nice. And Dvir sold 1300 units on Kickstarter for $89 a unit. Remember, we're talking about pricing. So is that the real price? Stop laughing because you know the answer. Okay, so there are, turns out, competitors. If you start thinking about it not as a product, but as jobs to be done, you will realize they are competitors. And the first time I showed it to Dviri, he said, no, they're not competing with us because they do this, we do that.

And I said, they are competing on the jobs to be done. So five best heated coffee mugs in 2024 to keep your drink at the perfect temperature. So it turns out there is not one competitor or two competitor. Five at least. And let's look at one next mug. 14 ounce cost $99, $100. And that's after a discount. Okay, used to be 130. Then there is amber. Amber drinkware. This one cost a little bit better, $200. So suddenly the 89.99 doesn't look so interesting, right? And you say, well, they tried to sell it for this, but they probably failed. Right? So let's look at it. So Amber ranks amongst the fastest growing companies in America, joins the Inc 5000 brand, makes waves in the consumer tech industry after experiencing cigR, the compounded annual growth rate of nearly 60% in the last three years. Right. Positioning.

Here are the results. So they make money, they can spend money on creating marketing and branding. At $89, when the unit itself costs probably $50 to produce, it's not very interesting because 89 is to the consumer. All the channels in between will eat everything. So you see a great example of thinking through it. So now we go back and I said to you at the beginning, we're going to show you why branding first allows you to do things before you even develop the product. So just for fair disclosure, they are in the middle of developing the product. And then came the bad guy, me, and said, what are you doing, guys? Are you nuts? We first have to sell it. We don't know who we sell it to. We don't know the price. So why are we developing it even. So we started looking.

So we came up with market segments. The first one that came again and again, it's two different market segments, but basically the same jobs to be done is if we want to make sure that the water is clear of any contamination by microbes or whatever. Okay? So the best thing to do is boil it. The oldest process that we use today. That's, by the way, the reason why a lot of cultures use something that has to do with boiling water. So beer, for example, came because you have to brew it, and it kills all the microbes. Mothers who need to make formula for their babies. I came up with another thing, and they killed me. And I said, what about mothers who pump and freeze it and then needs to defrost them and warm it up? And they said, small market.

This is a much bigger market. They want to just take the formula, put it in boiled water, and rest assured that their baby is not going to be infected. Second, which is the same exact jobs to be done, but a totally different situation is travelers who go to exotic countries and need to boil the water. You go to India, you don't want to drink water. Want to make sure that it's boiled before then, right? And you want to make sure that you can do it at any point. You're not dependent on anybody. You take water, you boil it in chemos, and you're good truck drivers, mountain bike riders. The reason I choose those two is because these guys are crazy. They spend tens of thousands of dollars on their gear. So what is another $300 for hot water on the slopes or whatever, right?

So that was the logic. So for each market segment, we want to test three landing pages at three price points, 99, 199, and 299 at the minimum. We want to see what is the price elasticity. Needless to say that if we realize that 10% less people, fewer people buy this, instead of that, we still make three times as much money. That's algebra. So clearly, we want to test what is the price elasticity and try to get that most people will buy it here because 299 must be a good product. 99, I don't know. It's chinese, probably. So prices send a message. Remember the church in the bank price. Send the same message. Perfume for $5 and perfume for $500 must be 100 times better. Must be right. Otherwise you wouldn't charge $500 prices send a message.

So we want to test two things at once. We want to google and try to put ads for mothers with a formula and traveler to India and whatever, and see what we get and what we're going to see are two things. Number one, which message resonates? Do we see more mothers clicking or more travelers to India or more bikers? So we have to play with the ads. We have to play with the cost of the CAC, the customer acquisition cost, and of course, the price point. The main point I'm trying to make is none of that requires any product. You can demo the product. You click in here, it does that. You click here, it does that. Everything is working, except it's not a product. But it demonstrates what it does. Here we have a demo, right?

To get the feedback you need, you don't need a product. And remember what you're going to do and what we're going to find out. Can I tell about what we did with your product? Okay, so we work with Iran and his company, and they have this sophisticated tool that connects to your accounting system into the banks and collects a lot of information about your company and creates reports. So they had a plan to go about credit risk and all of that stuff. I looked at it and I said, sorry, but doesn't make a lot of sense. But the reports look nice. How about we don't try to guess? Let's go show the report to customers and ask them what do they see?

You know, we collect all the data from the banks, from their accounting system, we make sense of it and we create reports. Let's see what the customers do with it. So everyone goes and talks to some customers and he comes back to me and he says, I showed it to five customers and there was one thing that they immediately zeroed in. It was their accounts receivable, how much money people did not yet pay them. And it was in the hundreds of thousands of shekels that was outstanding out there and was not yet being paid. And it really bothered the hell out of them. When we, when they saw the number, they were all over it. And I was elated because there are two things happening at that time. Number one, we can offer a lot of help in how to collect.

And his partner, Itama, said, well, the best way to collect is to start collecting before it's due, because once it's due, you are in. But if you know, like two weeks before you send them an email, you say, I sent you this invoice, you have it in your system. I hope you, if you need any more documents, blah, blah, a week before you say, well, you know that it's due in a week, blah, blah. A day before you call them, make sure you will collect, because you just. Right, so you will collect. And it's huge help. And what do we do? Nothing. It's just a sequence of emails. Right? So we have a solution for it. The second reason why were, why I was at least elated, price is always in the context of something.

If I come to them and I say, look, I have all of these great reports for you, he looks at me and says, aha. Yeah, very interesting. And I say, I want $5,000 a month for it, they say, huh, not interested. When he sees half a million shekels out there. And I said, I can solve you this problem and I want 10,000 shekels to set it up. And then 3000 shekels a month, you'll say, where do I sign? I mean, this is ridiculous. So much money out there. And I paid the bank, I don't know how much money for it to finance that. It's in cheaper than. I are a bully. Right? Price is in the context, and the best context is money. Look at how much money you can save, because I just calculated your accounts receivable.

So the issue here is you really want to understand all of that before you spend the money to develop the product and produce all the molds and everything and lock yourself, because maybe what they want is just to do something else. So here's what they did. The bustards. Two weeks ago when I went and checked it and sent information to these guys, this wasn't on their website. It came on their website maybe a week ago or maybe yesterday, I don't know. Look at the price point, $400. Just so that you don't think I'm joking. Number one on our side, this was the number one market we wanted to test. I was like, I looked at it and I couldn't believe my eyes. I said, wow. Exactly right. It's not a product, it's a system. Right? It's amber, baby system, bottle system in me.

And they also give you these, which each one of them cost, I don't know, a dollar or whatever. Right? I. Exactly. So again, it's another example, really, on something that were talking about here two weeks ago. And you can see why. Trying to think, first of all, branding first, then think about the product. But after branding first, I always say, now start thinking about your business model and your pricing and all of that. Do before you invest a penny in developing your product, because then it's easy to do, you know, a pivot. There's no pivot, actually. You just look for market segments and price points that make you happy. So intelli chain, do we have still time? Yeah. So Intellichain is another of our companies. They're not here because has corona. So what they do here is software. I wanted him to give it.

He was telling us two lectures ago. So it's software for demand prediction. And his idea was, there are systems like that for big companies. They sell for hundreds of thousands of dollars. They are complicated. You need consultants to implement it. How about if we develop a small product, you know, modern look and feel very smart, and we position it at $10,000 because that price, they just can't resist it. They're going to buy it like crazy, right? And so we started working with them, and the first thing I told them is, if they sell it for hundreds of thousands of dollars, why do you want to charge $10,000? It makes zero sense to me.

It sends a message of a bad product, because when you go with a low price like that in a market like this, second, I have a feeling that the problem is not the price point at all. I think the problem is that people don't understand what you're doing. Not just you personally, but the industry in general. And they're not going to buy anything because they don't understand what it does, what jobs to be done. They just don't. The whole thing is too sophisticated for them. So what we're going to do about it? So we looked at one another and I said, you are a really presentable guy. You know how to teach. You have a charisma. Why don't we start doing courses? And in the courses we teach them why they need your product.

So they will pay us to understand why they need your product. They will respect it because they paid for knowing why they need your product and you have to raise the price. Okay. So we started doing courses, and the courses are going really well. A lot of companies in us were already went through the courses, right, Gabi? Really positioning them as the, by far the industry leaders in terms of technology and understanding. And then we sit one day about the sales and he says, after that, I do a proof of concept. So we go to the customer, we sit with them, we take their data and we show them what we can do for them. That's a proof of concept. So how long does it take you to do the proof of concept? I don't know, about two weeks work, something like that.

And said, you do it all for free? Yes. Said, let me tell you, if you do it for free. Nobody's going to look at it because it's not interesting. So how about we package it as a consulting step? First step that will show you, show them nothing, why they need your product, but how much money they lose by not doing, doesn't you? Your product is on the side, it's not real one, but just show them how much money they can save and make by using these methodology. So right now we have a course which they pay for. We have, we call it value realization, something like that. I don't remember the name. We finally chose for the package and we sell it for ten. I wanted to sell it for 10,000. They fought with me and they. At the end it's 7200, I think.

So the course is like 3000. So about $10,000 before we start selling. And the product itself goes to about $50,000. That's the difference. Because the problem was not the price, the problem was not the product. The problem was the market. They had no clue what we're talking about. So it doesn't matter what price we're going to give them. It doesn't matter. So that's why you have to do all of these things at the beginning to understand where your problem is or where the market problem is. Because if you try to solve a problem that doesn't exist in their minds, nobody's going to buy. Okay, I'm right on time.