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# Two proven pathways to a profoundly profitable business - which will you take?

It's easy to dismiss the two proven paths to a profitable and successful business.

It's easy because the companies who've taken up these pathways are global giants now. However, these businesses were anything but giants when they started.

In their early days, they had a lot in common with you and your business. Then they learned to master a simple business principle, one which we can all take more seriously.

## 3 examples...

Ingvar Kamprad started his business in Sweden when he was just 17. IKEA now annually sell more than €44billion worth of furniture from more than **400 stores in 50 countries**. This global success has been achieved because Kamprad radically simplified the manufacture, transportation and buying of furniture.

Another true master of business simplification (and worldwide success) is Ray Kroc. His first motto when establishing McDonalds was **KISS – Keep It Simple Stupid**.



And **489 million people** globally now have access to most of the recorded music the world has to offer, all because Spotify worked out how to simplify the experience of listening to music (205million are paying subscribers – iTunes has 60million).

*“Strategy should be a punch between the eyes.”*

– Bruce D Henderson, founder of Boston Consulting Group

The two strategies for simplifying your business are just that – *‘a punch between the eyes’*.

## IN A NUTSHELL:

It's easy to want to do more, to provide smarter, better products to please your customers. However, in a complex world, simplifying what you and your business do can unlock increased sales and profits, as it has for many global brands.

## Which one will suit you best?

Price simplification OR proposition simplification – which path best suits your business and your industry?



## Price simplification...

How do you price-simplify car insurance? One company decided to cut out the brokers and identify low-risk consumers, giving them better discounts and 'instant' quotes, initially by phone and then via the internet.

This insurance company started in 1985 and, with revenues of £2.9 billion in 2022, continues to thrive as a household name in the UK and Europe. Direct Line proves that **price simplification** works.

## Proposition simplification...

Uber, Airbnb and Spotify were seemingly overnight global successes, successful because they simplified their propositions to the market using mobile devices and the internet.

Amazon and Google now dominate their respective spaces because they simplified their propositions. And, of course, there's Apple, with the iPod, iPhone, iPad and iMacs seen as the world standard when released, thanks to **proposition simplification**.

### A PROVEN SOLUTION FOR YOU...

Choose either price simplification or proposition simplification and you start to apply proven patterns of success to your business and to your products or services.

## How to choose your pathway...

**Price simplification** requires a concentrated focus on at least halving the market price.

**Proposition simplification** requires a concentrated focus on making your product or service easier to use, more functional and more emotionally appealing.

Of course, neither pathway is easy, or everyone would already be doing it.

But what's stopping you from taking **a few deliberate steps** towards putting one of these profoundly profitable business strategies to work in your business?

**STOP** – thinking you can be all things to all people all the time

**START** – simplifying what you do from your customer's point of view

Richard Koch and Greg Lockwood signpost the 'patterns that keep recurring in the most successful simplification stories' in their compelling business book, *Simplify – How the Best Businesses in the World Succeed*.

Let's follow the patterns...

## Can you really halve prices?

Halving prices and, perhaps, halving them again is definitely not 'business

as usual'.

It requires a fundamental shift in thinking. But halve the market price, as both Direct Line and IKEA did, and you'll tap into 10x, 100x or more than 1000x revenue growth with matching profits and capital value – just as Direct Line and IKEA did!

IKEA more than halved the market rate for a simple yet stylish table and went global. Penguin books did the same with the price of 'good' books. McDonalds, Ford, Southwest Airlines (Ryanair followed them in Europe) – all adopted price simplification as a core strategy.

*"...the simplest designs ...that no one making a good salary would be unable to own"*

These words from Henry Ford could easily have come from Ingvar Kamprad's playbook or from Ray Kroc at McDonalds. They could also have come from Michael Marks, when he was obsessed with selling middle-class clothing that working-class people could afford. Marks and his partner Tom Spencer built a world-renowned brand on price simplification.

## 3 fundamental pricing steps...

1. **Redesign your product** or service to make it simpler and cheaper, but still valuable to your customers. Henry Ford, Ingvar Kamprad, Ray Kroc and Herb Kelleher (Southwest

Airlines) – all meticulously designed their products and services. They removed features and cut down on variety to help reduce prices without compromising their core values. How can you take similar steps? Check out the download tools below for a checklist and examples to help.

2. **Redesign the business system** to make the product or service simpler and cheaper to produce and deliver. This system redesign underpins your halving of prices and protects you from imitators. Henry Ford simplified his model-T Ford, then repeatedly redesigned its production system. This enabled him to continually push prices down, from \$950 in 1909 to \$360 in 1916. Again, in the download tools, you'll find 5 ways to look at redesigning your business system.
3. **Scale your business** as quickly and extensively as possible to lock out imitators. This is easier if you're an internet business, harder if you're making and transporting things or delivering a people service.

What if price simplification could be simpler? In 1931, Pepsi adopted a price simplification strategy that took them from zero sales to a 10.8% market share in less than a decade – Pepsi simply sold a 12oz bottle (at a profit) for the same price as a 6oz Coca Cola bottle. Half price was possible because the majority of costs lie in the bottling and distribution, not in the contents of the bottle.

### 3 steps to proposition simplification...

Proposition simplification isn't 'business as usual' either.

But again, Koch and Lockwood point to the patterns that Amazon, Google, Apple and others seem to follow.

Every one of these organisations made their product or service easier to use, more useful than the competition and **more emotionally appealing**. Some of them even had dominant market leaders to overcome – at one point Google were the 18th largest search engine – and Spotify were fighting the four global giants of the record industry and Apple iTunes!

**Important:** Simplification of your proposition starts with understanding your customer's perspective. It might be harder for you, but the end result

should be easier for your customer.

1. **Easier to use** – Deep empathy with the user and a mission to simplify is what won the hearts and minds of billions of Apple users across the globe. 5 'keys' and stories to help make your product or service easier to use are shared in the download tools.  
How do you sell 14.3 million cameras in one year (1978 – when it took over a week to get camera film developed)? Give your customers instant pictures! Polaroid simplified the picture process by eliminating the stages of making pictures and put pictures almost instantly into their customers' hands, before phone cameras were even dreamt about.
2. **More useful** – Build in greater functionality without losing ease of use, otherwise your increased usefulness is pointless.

Uber is a global brand now because it's useful and easy to use – it's personal (you know the name of the driver); you can choose your type of vehicle; you can order it in advance or when needed; payment is already covered in the app. You'll find 5 more 'keys' to build your armoury of simplification in the download tools.

3. **More emotionally appealing** – Art brings a stronger emotional connection to what you make or do – it should also make your product or service more intuitive and easier to use.

*"Spotify lavish a great deal of attention on how they present themselves."* – Loch & Lockwood, *Simplify*

*"We're really shooting for Museum of Modern Art quality."* – Steve Jobs, Apple

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## 4 helping hands for you...



Koch and Lockwood show brilliantly how the principle of simplification shows up repeatedly across the global success stories, providing a route map for your business and for your products or services.

Use these 4 helping hands and put this model to work for you:

1. **Put complexity to one side.** Innovation and creativity are often seen as ways to add things to your product or service. The results of simplification show that innovation can be profoundly powerful when you work out how to do less, take things away, reduce steps, and so on.
2. **Choose a simplification pathway to suit you.** Although some global brands have mastered both price and proposition simplification, at the start it makes sense to narrow your focus. Doing less is ultimately where the payoff lies, so choose the pathway that best suits your business, your product, your industry.
3. **Invest time being creative.** The authors of *Simplify* have provided you with the proven patterns that others have applied successfully. Simply work out which elements of your chosen strategy (price simplification or proposition simplification) you can put to work.
4. **Dive deeper into the stories and results of other successful businesses.** There's only so much we can cover in a brief review, so grab a copy of Koch and Lockwood's book and build on the insights from this Business Breakthrough report.

Reading this report and the additional downloadable tools and resources is a great first step in simplifying what you and your business do. The scale of the results when you get this strategy right could be massive – shouldn't you give it a go?

## Should I do both?

The short answer is no. That is, given normal market conditions and a level playing field, you will want to think about which route is more appropriate for your business and which, ultimately, will generate the greatest returns. You will either be aiming for a single objective of cost and price leadership (price simplification) or looking at ways of providing the simplest and most appealing product or service in your field (proposition simplification).

However, should you find yourself in the enviable position of coming up with a product or technology which is not yet available across your market, you will find, for a finite time (before others start to encroach) a window in which you can deploy both strategies!

But, for most of us, the wise thing to do is to take a good look at what we provide as a product or service and think about ways in which we can follow either price simplification or proposition simplification principles.

## Time to disagree:

**“What’s the point of all this simplifying effort if people are going to copy what we do?”**

You’re right to make this a concern because success will likely result in copycats. The greater your success, the greater the number and quality of copycats. Ultimately, though, you can choose to be the innovator of the copycat. Take simplification of price or proposition seriously and you’re

not just making a more appealing product or service, but reshaping your business model. Your business model will be harder to copy because it’s less obvious and visible. And do you really want to wait until a competitor steals a march on you and simplifies things when you could have already done that yourself?

**“We don’t have the resources of an IKEA or Apple or Uber and we can’t fund radical change across our business.”**

At 17, Kamprad had no resources when he started IKEA. It’s not the scale of your business but the scale of your thinking that matters. Kamprad didn’t set out to build 400 stores, he set out to rethink the way furniture was made and delivered. Henry Ford was from similar origins, building a carburetor on his family’s (non-IKEA) kitchen table!

Think about it – what can you do to make your customers’ lives better through either simplifying your price or your proposition?

## ULTIMATE ARGUMENT:

**“If everyone did simplification there’d be no room for other ways of doing business!”**

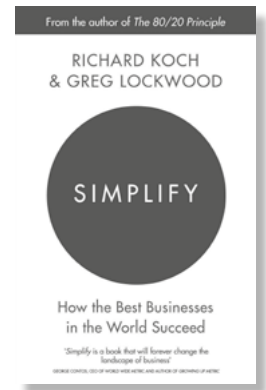
Simplification for global success doesn’t work for every business or for every industry. However, the potential business wins and competitive advantage of simplifying your price or your proposition means that this is a worthwhile endeavour.

Why not have a go and work out how the patterns of simplification

might work for you and your business?

## Want to know more?

Richard Koch and Greg Lockwood’s book is packed with stories and examples that bring the patterns of simplification to life. *Simplify – How the Best Businesses in the World Succeed* could forever change your business landscape.



Over the last 40 years, Richard Koch has worked to uncover the simple principles and strategies behind every successful business. With the help of venture capitalist Greg Lockwood, and supported by research from OC&C Strategy Consultants, Koch has uncovered the one unifying principle behind successful companies such as IKEA, the Boston Consulting Group, Honda, and Uber: simplify.

Taking the principle one step further, Koch has identified that companies will either be price simplifiers – consider flying a budget airline stripped of all the extras that still takes you from point A to point B – or proposition simplifiers – such as Apple, with their easy-to-use products for a large market willing to pay a premium.

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Use these tools and resources to simplify what you and your business do and make products and services more appealing and easier to use.

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