

# TRICorporation



Sales + Finance Concepts = Winning Business Equation

## **Customer Economics** A TRI Corporation Simulation

TRI's Customer Economics workshop brings sales and finance concepts together in a business simulation format. Its purpose is to give everyone who takes part in growing a company's business valuable insights aimed at fostering a win-win for the company and its customers.

## COURSE DESCRIPTION

Customer Economics is an intensive, experiential exercise that is suitable for all levels – from entry to senior leadership. It tasks participants with answering an RFP in which the customer's stated needs and those of their own organization seem to diverge. Ranging from four hours to a full day (recommended), the workshop combines a lecture, simulation rounds, peer feedback, and a detailed debrief. Participants work in teams as they compete to deliver the winning bid, using economic modeling and live role-play with faculty to overcome obstacles and achieve their intended goal: an offer that wins the business while protecting their company's interests.

### The Discovery Process

To prepare for the simulation, TRI conducts a strategy session with members of the company's leadership team to determine objectives and to gain understanding of the business, its culture, processes, and specific challenges and business objectives. From this session, the project scope and simulation structure are developed based on participants' needs and desired outcomes.

### The Simulation

The program begins with a lecture that covers basic business finance framed in the context of the company. This is followed by three rounds of play, with a maximum of 30 participants to each faculty member.

The scenario: A member of the company's sales team is working on an RFP and has identified the customer's needs. In this scenario, what the customer wants and what the company can deliver are in conflict. Seeking a way to win the business, the sales executive turns to the finance team for help addressing the customer's issues.

In round one, participants are asked to determine what the company can reasonably deliver that will satisfy the customer. They are coached on how to communicate that offer in a way that will increase the likelihood of winning the bid. Each team receives an economics model in which to input an appropriate price balanced with the margin to be realized by the company. In doing so, they are tasked with identifying all relevant elements that contribute to the offer. During the process, teams and their individual members have an opportunity to ask questions of the potential customer to help them build their offer.

Based on the answers to questions and the results of the economic model they create, each team submits an initial bid.

While the details of each bid are not shared, the bid number is, so that teams can compare their numbers against those of their competitors (a step that would likely not occur in the real world but is crucial to the learning process).

Round two begins with participants reacting to the results of the first round of bids before going back to their teams to refine them. Teams have the option to role play again. Faculty will at times interject into the role play new information or challenges to which teams must react.

At the end of this round, teams submit their final bids. From these, one or two teams are chosen to pitch to their potential customer (faculty) as the rest of the class observes. The customer asks the pitching teams probing questions and might also ask questions of other teams.

In an optional third round, teams are asked to present their best and final offers. This is structured like a Vickrey sealed bid auction in which the customer awards the lowest bidder the contract and agrees to pay the next highest price. For example, if there are three bids of \$60K, \$100K and \$120K, the \$60K bidder will win and will be paid \$100K for the contract. There are variations to this type of bid.

The simulation, including debriefing sessions, gives participants a solid foundation for incorporating sales concepts and finance concepts to attract the right kind of business for their organizations.

### Generic vs. Customized

**Customer Economics** is a generic business simulation that can be customized as **Your Customer Economics**. The primary difference between the two is the fictitious case, which for the customized version is created around your organization's actual product line. The custom version is more appropriate for junior-level audiences, while the generic version enables senior-level participants to abstract from an unrelated case without getting caught up in their real-world organization's processes.

## PARTICIPANT OUTCOMES

- Awareness and understanding of the internal and external economics at play when attracting potential customers
- Greater clarity on how the company's products and services add value to the customer's bottom line; the ability to articulate this message in a winning RFP
- Identifying the win-win touchpoints in negotiations with customers
- Insight into the importance of pricing, margins and ultimate value to both organizations
- Pinpointing the intersection of the customer's and the company's finance needs
- Strategy for filling in information gaps when making decisions
- Ability to work more effectively within a team structure
- Ways to win business without undervaluing it



### Customer Economics Cash Flow Model

Every team receives an Excel spreadsheet with a customer economics cash flow model. This serves as an income statement and balance sheet to determine the capital required. It enables them to look at all the project's impacts on their business, including:

**Weighted average cost of capital (WACC):** Also called the hurdle rate, the WACC is essentially the rate that a company expects to pay on average for what it borrows. It is also referred to as cost of capital and is dictated by the external market.

**Payback:** The simplest customer economic measure, payback looks at how much cash a project requires the company to spend and how long it takes to recover.

**Net present value (NPV):** This compares the present value of cash invested today with the present value of future cash inflow generated from that investment.

**Internal rate of return (IRR):** Used to evaluate the attractiveness of a deal, the IRR is the interest rate at which the net present value of cash flows (positive and negative) of a project or investment equal zero.

# REQUIRED RESOURCES

## Room

- Main classroom
- Private faculty room
- Team breakout rooms\*

## Equipment/Supplies

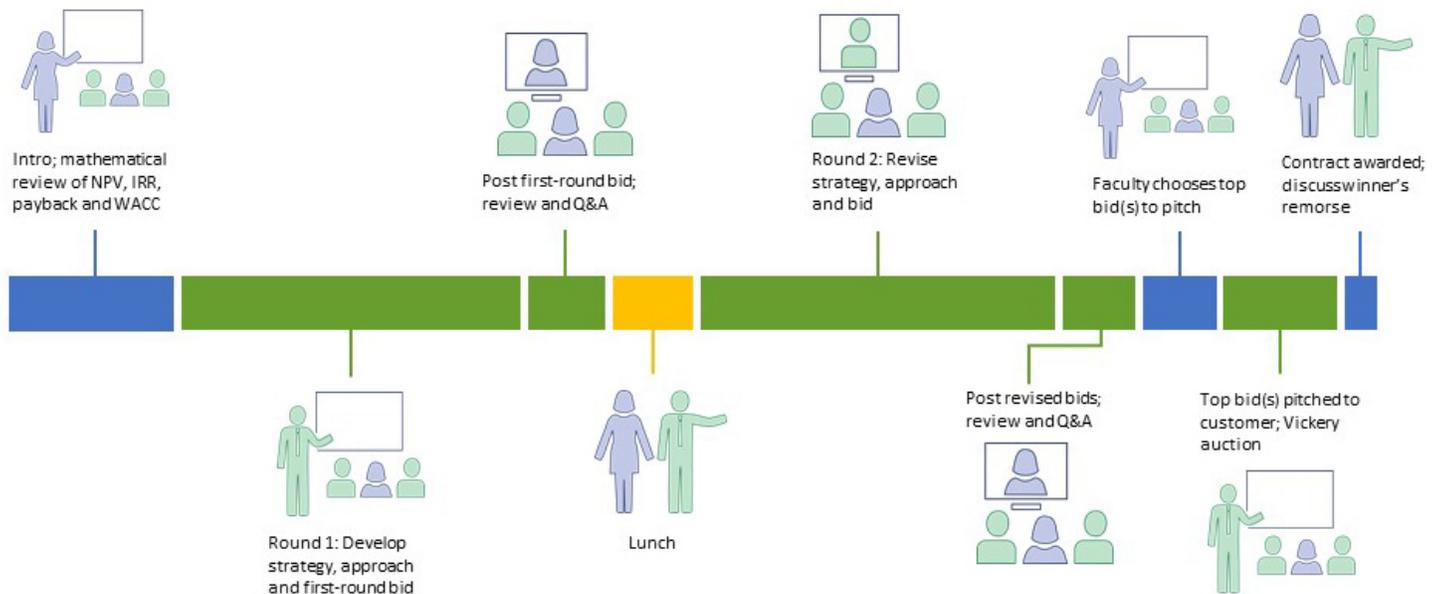
- Laptop for each team (usually participants bring their own computer); projector
- One high-speed color printer per faculty member
- Computers (optional – can be included to run a financial model); assorted supplies, e.g. flipcharts, pens, paper, etc.

## Class Size/Staff

- Class size: 30-50 participants
- Faculty: 1-2; one faculty member per 30 participants reviews

\* Breakout rooms are optional but preferred. If they are not used, the main classroom should accommodate teams with at least five meters between team tables.

# SAMPLE TIMELINE



Timeline may vary based on expected learnings.