TEAM 6 - Aurora

Assignment #2: Operating Models

Revenue Model Option #1

Who Will Pay? (*Company, End User, Advertiser…)*

Logistics and freight companies, potentially in collaboration with truck manufacturers for pre-equipped models.

What Will They Buy? *(Single Item, Bundle Items, Service, Bundle Service, Bundle Item/Service…)*

Offers a bundled service, licensing its autonomous driving tech with added support, tailored solutions, and payment tied to performance metrics.

How Much Will They Pay? *(One Time Price, Annual Total, Multi-Year Contract…)*

Payments could be made on a per mile or based on the achievement of performance milestones.

How Will They Pay? *(Revenue Model Type: Subscription, Asset Transfer, Freemium…)*

Direct billing based on performance reporting.

When Will They Buy (Cycle Time)? *(Time from initial contact to purchase)*

After an initial setup and trial period to make baseline performance metrics.

How Often Will They Buy? (Velocity)? *(One-time purchase, Monthly, Annually…)*

Ongoing, as long as they use the technology, with potential for renegotiation based on scale or performance improvements.

Additional Sources of Income? *(Services, Accessories, Upgrades…)*

Custom development for specific logistical needs, and sale of additional hardware components as technology evolves.

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Revenue Model Option #2 (FINAL)

Who Will Pay? (*Company, End User, Advertiser…)*

Logistics and freight companies will pay directly for services and products.

What Will They Buy? *(Single Item, Bundle Items, Service, Bundle Service, Bundle Item/Service…)*

Aurora's customers will purchase a bundled service, subscribing to a comprehensive autonomous driving solution that encompasses both software and hardware components for retrofitting existing vehicles.

How Much Will They Pay? *(One Time Price, Annual Total, Multi-Year Contract…)*

Competitive annual subscription rates, take into account the initial cost of hardware installation and with tiered pricing based on fleet size and service level.

How Will They Pay? *(Revenue Model Type: Subscription, Asset Transfer, Freemium…)*

With a subscription model, include the upfront cost of hardware and the ongoing cost of software, maintenance and updates.

When Will They Buy (Cycle Time)? *(Time from initial contact to purchase)*

The purchase cycle for Aurora's autonomous driving solution begins with a demo or trial period, progresses through a detailed consultation, the development of a customized package based on the customer's needs, and concludes with the final purchase. For the software component, the yearly cycle involves regular updates, support, and subscription renewals.

How Often Will They Buy? (Velocity)? *(One-time purchase, Monthly, Annually…)*

Primarily one-time hardware purchases, and annual subscription models for software and services, provide opportunities to upsell or upgrade hardware over time.

Additional Sources of Income? *(Services, Accessories, Upgrades…)*

Other sources of income may include premium services, fleet optimization consulting, and future hardware upgrades.

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Pricing Template

1) **Break Even Price** (unit cost plus overhead)

Determine the unit cost of delivering the autonomous driving solution, including hardware, software development, maintenance, and overhead expenses. Set the break-even price to cover these costs.

2) **Price to Cost Plus** (unit cost plus overhead plus target margin)

Establish a target margin to add to the unit cost and overhead, ensuring profitability. This approach allows Aurora to set a price that covers expenses and generates a desired profit margin.

3) **Price to Value** (Results oriented, based on impact to the client's business)

Align the pricing with the value the autonomous driving solution brings to clients, considering factors like increased operational efficiency, reduced costs, and improved safety. Price based on the perceived value and impact on the client's business.

4) **Price to Package** (bundled services, product packages)

Offer bundled packages that include the autonomous driving solution, support services, regular updates, and potentially premium features. Set pricing tiers based on the level of service, providing clients with flexibility and choice.

5) **Price to Positioning** (Authority, Brand, Luxury, Cost Leadership)

Utilize pricing as a strategic tool to position Aurora in the market. Options include pricing as an authority, reflecting advanced technology; as a luxury, emphasizing premium features and services; or as cost leadership, focusing on affordability and accessibility.

Appendix

Break Even Price Calculation:

Identify Unit Cost Components:
Hardware Cost per Unit: $50,000
Software Development Cost per Unit: $30,000
Maintenance Cost per Unit: $10,000
Overhead per Unit: $20,000

Calculate Total Unit Cost:
Total Unit Cost = Hardware Cost + Software Development Cost + Maintenance Cost + Overhead per Unit
Total Unit Cost = $50,000 + $30,000 + $10,000 + $20,000 = $110,000

Determine Break-Even Price:
Break-Even Price = Total Unit Cost + Desired Profit Margin
Let's assume Aurora desires a 20% profit margin on top of costs.
Desired Profit Margin = 20% of Total Unit Cost
Desired Profit Margin = 0.20 \times $110,000
Break-Even Price = $110,000 + Desired Profit Margin
Total Unit Cost: $110,000
Desired Profit Margin: 0.20 \times $110,000 = $22,000
Break-Even Price: $110,000 + $22,000 = $132,000