

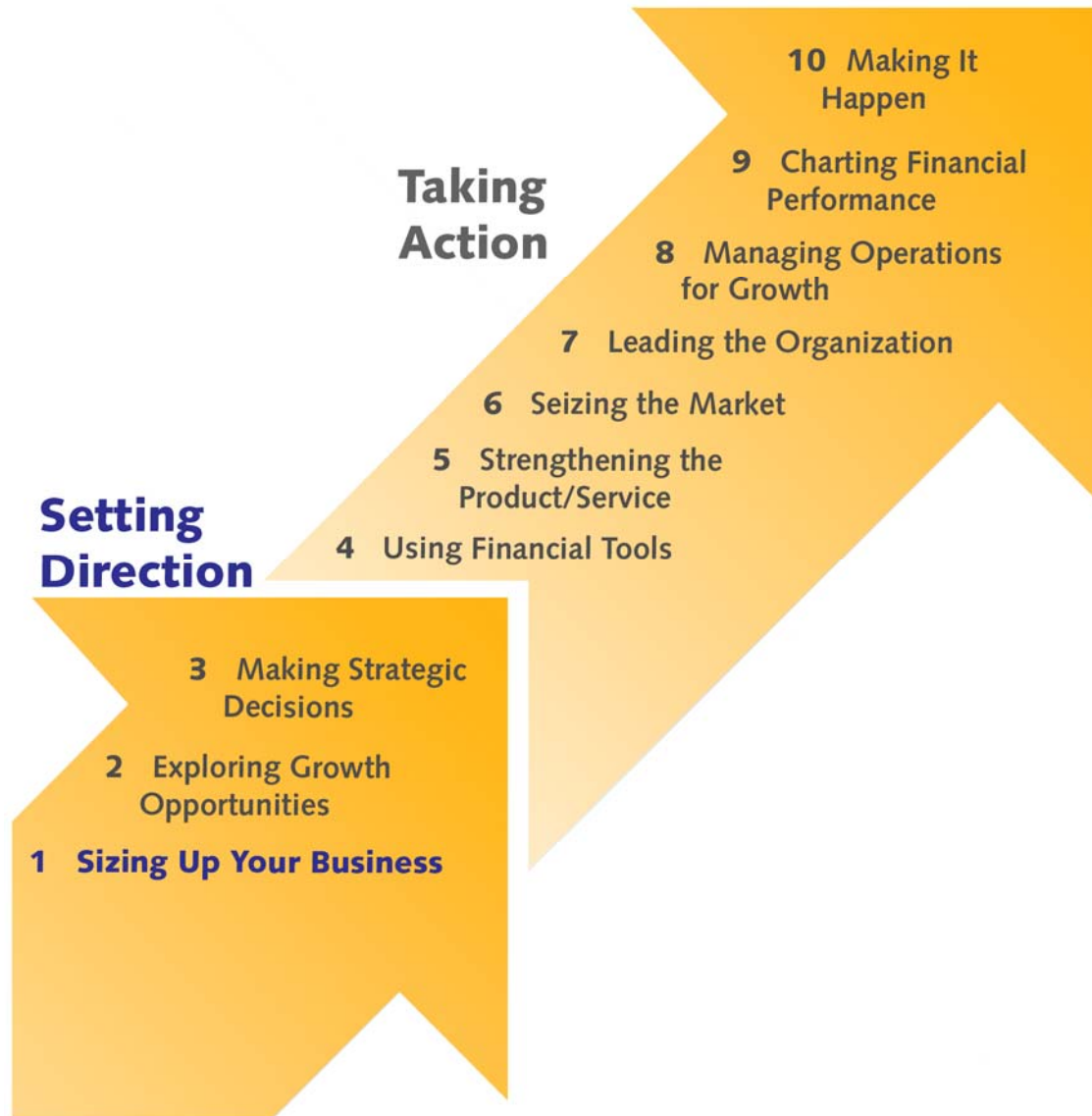


United States African Development Foundation

**Strengthening Products and Services:
Improving, Protecting and Pricing Your Product**

March 12, 2007

FastTrac[®] GrowthVenture[™] Modules



Session Agenda



1. How to strengthen products/services

- Analyzing products/services
- Expanding into new products / new markets
- Table exercise: develop best practices

2. Protecting product/service assets

- Legal: intellectual property and contracts
- Relationships: staff and external
- Table exercise: develop best practices

3. Pricing

- Explore common pricing models
- Theory vs. practical realities in Africa
- Table exercise: develop best practices

Product / Service Section of Business Plan



- Why analyze specific products vs. overall firm performance?
 - Easier to assess the high-level offering
 - Specific product analysis is required for:
 - Detailed revenue projections
 - Tactical marketing plan
 - Detailed operations plan
 - Understanding of margin contribution
 - Facilitates in-depth understanding of how businesses create value
- Analyzing specific products/services is challenging
 - Requires detailed data
 - Analysis is not straightforward
 - Generally managed from the gut
 - Revenue often does not align with contribution
 - Often contradicts beliefs of the management team

Alignment with Firm's Strategy



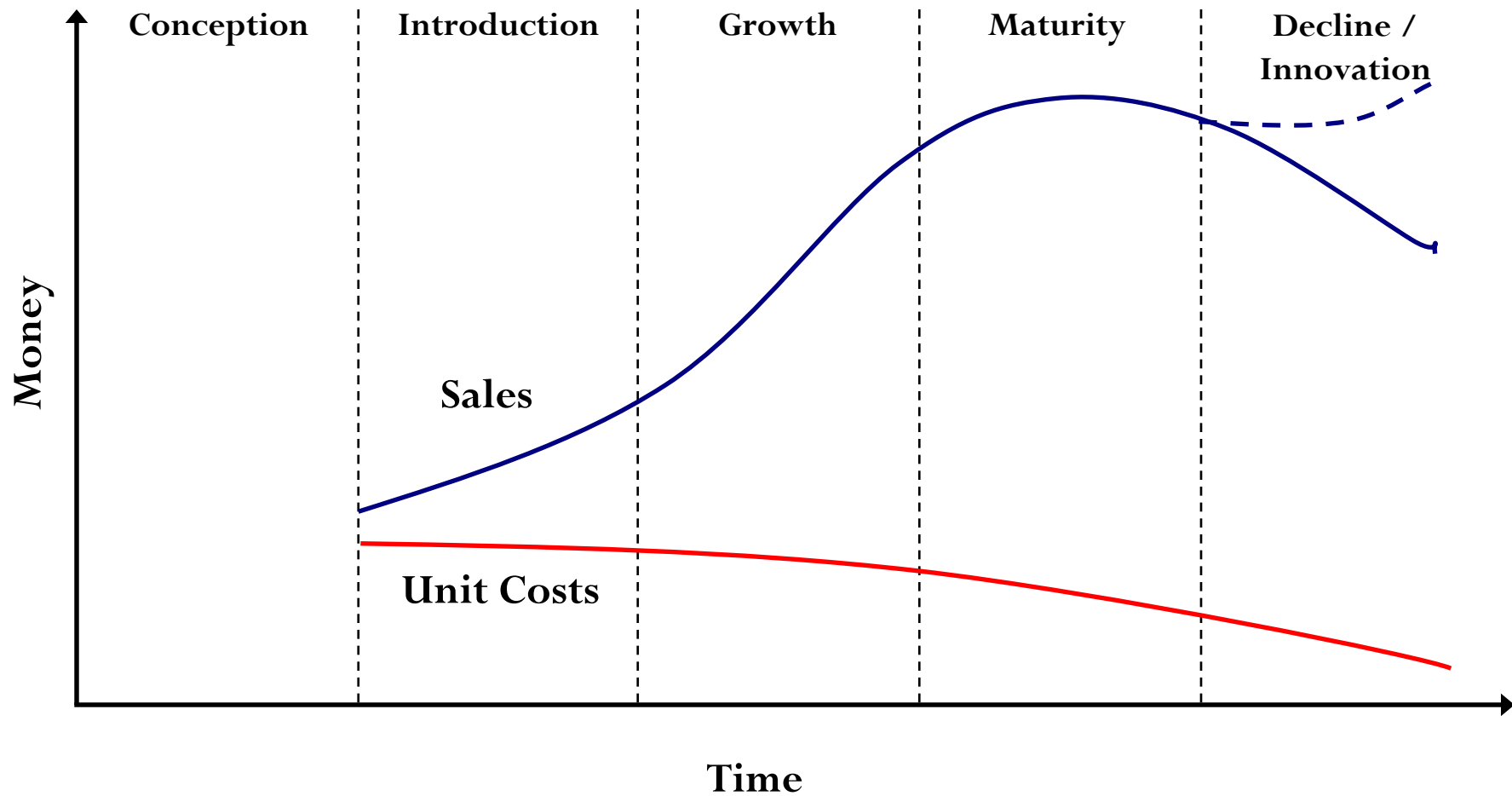
- Product mix is one component of an overall strategy
 - Competitive differentiation
 - Brand positioning
 - Core competencies
- All products/services must align with core competencies
 - Core competencies need to be defined and understood
 - Similar products often require different competencies

Creating Customer Value



- Precisely define the target customer
 - Person, not a firm
 - Identify specific characteristics that cause them to benefit from the product/service
 - What distribution approach reaches them
 - Clearly segment features from benefits
- Analyze specific features
 - Which product/service attributes uniquely tie to your target customer?
- Define concrete benefits
 - Benefits extend beyond the product per se
 - Consulting → Profitability
 - Organic produce → Health

Product/Service Lifecycle



Four Growth Approaches



	Existing Product/Service	New Product/Service
Current Market	<p>Increase Penetration</p> <ul style="list-style-type: none"> • Attract new customers w/in market <ul style="list-style-type: none"> • Increase volume with existing customers 	<p>Line Expansion / X-Sell</p> <ul style="list-style-type: none"> • Add new value/features to existing product or service • Leverage experience in current market <ul style="list-style-type: none"> • Expand footprint with existing customers
New Market	<p>Expand Market</p> <ul style="list-style-type: none"> • Tackle new market segment / geography • Leverage existing production infrastructure • Must quickly incorporate new market feedback 	<p>New Product Development</p> <ul style="list-style-type: none"> • Double learning curve (product + market) • Must leverage core competencies • Consider acquisition/partnership

Table Exercise #1



- Explore one of the following:
 1. Existing product into current markets
 2. New product into current markets
 3. Existing product into new markets
 4. New product into new markets

- Discuss and present the following:
 - What are common challenges for African SMEs in executing this particular growth strategy?
 - What are the best sources of information to create a detailed product growth plan?
 - Define best practices for this growth strategy

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Protecting Products / Services



- Legal Protection
 - Intellectual property
 - Product certifications
 - Contracts
- Relationship Protection
 - Internal staff
 - Customer / supplier relationships

Legal Protection



- Patents
- Trademarks / Servicemarks
 - Business name / logo
 - Product / service name
 - Slogans / phrases
 - Product packaging
- Copyrights
- Licenses / Royalty agreements
- Product Certifications
 - Production (e.g. organic, fair trade)
 - Regional (e.g. appellation contrôlée)
- Legal contracts
 - Employee
 - Supplier / Partner

Relationship Protection



- Internal staff: retention of talent / investment
 - Professional development opportunities
 - Incentives / bonuses
 - Employee contracts
- Customer relationships: long-term relationships
 - Volume discounts / tiered pricing
 - Loyalty programs
- Supplier/partner relationships: supply assurance / security
 - Long-term contracts
 - Penalties
 - Exclusivity
 - Confidentiality constraints

Table Exercise #2



- Explore one of the following:
 - Legal protection
 - Relationship protection
- Discuss and present the following:
 - What are the most important product/service protections for African SMEs
 - What are the challenges to implementing these?
 - Define best practices for implementing these protections

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Pricing is an Interdependent Issue



- One of the four Ps
 - Product
 - Price
 - Place
 - Promotion
- Interrelated with the firm's overall strategy
 - Reinforces the overall value proposition
 - Dependent on competitive strength

Pricing Cuts Both Ways



Factors that Influence Pricing

- Cost of goods
- Demand
- Competition
- Market pricing
- Customer perceptions
- Margin expectation

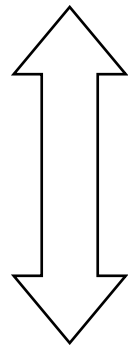
Factors Influenced by Pricing

- Sales volume
- Revenue
- Market share
- Competitive differentiation
- Company image
- Profitability

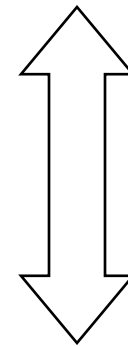
Pricing Boundaries



Customer-defined ceiling

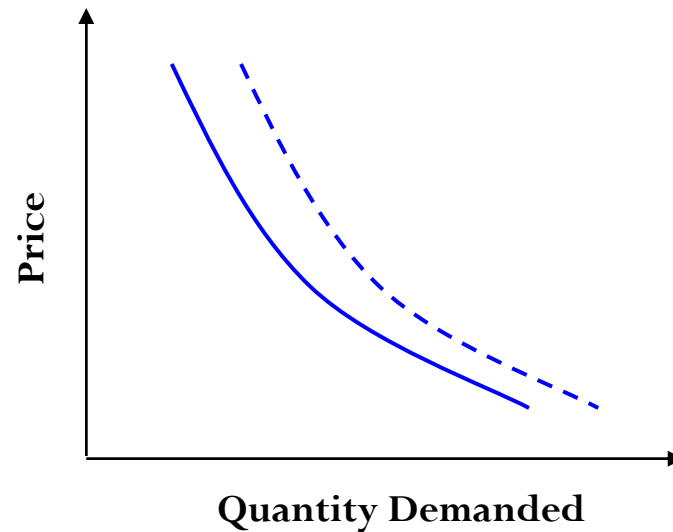


**Reasonable
range of
prices**



Break-even floor

The Demand Curve and Elasticity



Factors affecting Demand Curve

- Customer preference
- Prices of related goods (substitutes)
- Income levels
- Number of potential buyers
- Expectations of future price change

Factors affecting Elasticity

- Substitutes
- Luxury vs. necessity
- Proportion of income required
- Permanent vs. temporary price change

Customer as a Source of Information



Direct Relationship

- Few customers
- Direct sales
- POS / order data
- Effect of promotions
- Customer interviews
- Service data (returns / warranties)

Indirect Relationship

- Many customers
- Distributors / retailers
- Survey tools
- Focus groups
- Market research
- Customer service feedback

Art of Cost Accounting



- Several widely-accepted approaches
 - Standard Cost Accounting
 - Marginal Costing
 - Activity-Based Costing (ABC)
- All require good information
 - Direct material costs
 - Capital costs
 - Labor allocation of value-added activities
- Results are sensitive to approach and assumptions
 - Decide which approach is appropriate / feasible
 - Use a reasonability test

Common Pricing Approaches



- **Cost plus**
 - Price = cost + target margin
- **Target return**
 - Price = investment / expected sales volume
- **Value pricing**
 - Price set in relation to customer value generated
- **Psychological pricing**
 - Price set in relation to consumer perception (common price points, positioning)
- **Fair pricing**
 - Price defined by fair payment to producers/suppliers

Pricing Model Should Reflect the Company Strategy

Theory vs. Reality



- Informed pricing is difficult
 - Business strategy is often fuzzy
 - Poor understanding of costs
 - Even less understanding of customers, preferences and price sensitivity
- Pricing is a process/skill set, not an end result
 - Important component of USADF project screening
 - Critical skill set to build within our clients for ongoing management

Special Cases for Discussion



- Regulated industries / government-defined pricing
- Cooperatives vs. stand-alone enterprises
- Out-grower pricing

Table Exercise #3



- Explore one of the following pricing approaches:
 1. Cost-plus pricing
 2. Non cost-plus pricing
- Discuss and present the following:
 - For which types of African SMEs would this approach be appropriate?
 - What are common challenges with this pricing approach?
 - Define best practices for implementing this pricing approach