



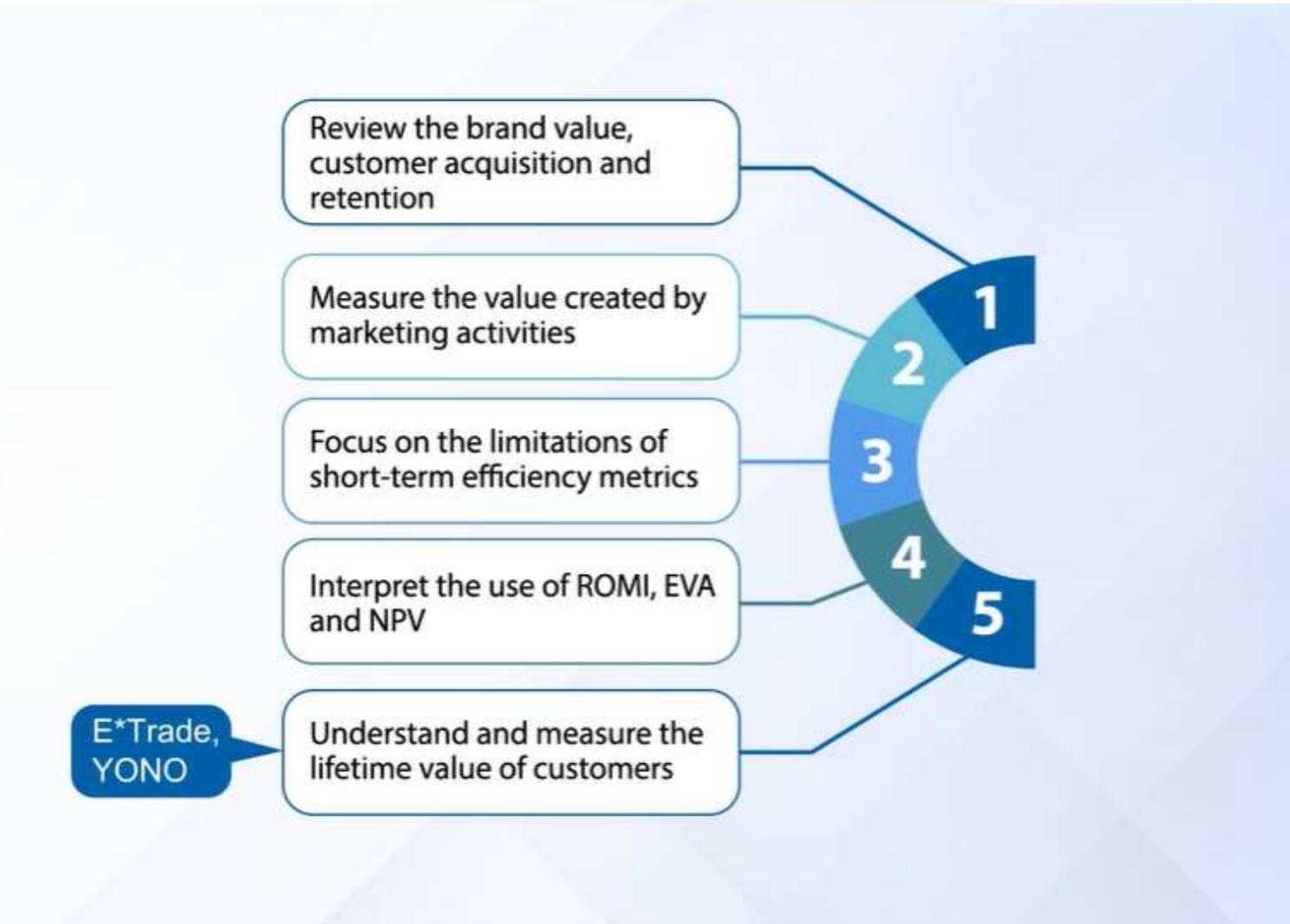
PM: Product Management and Development Pricing and Distribution Strategies

Module Overview

Learning Objectives



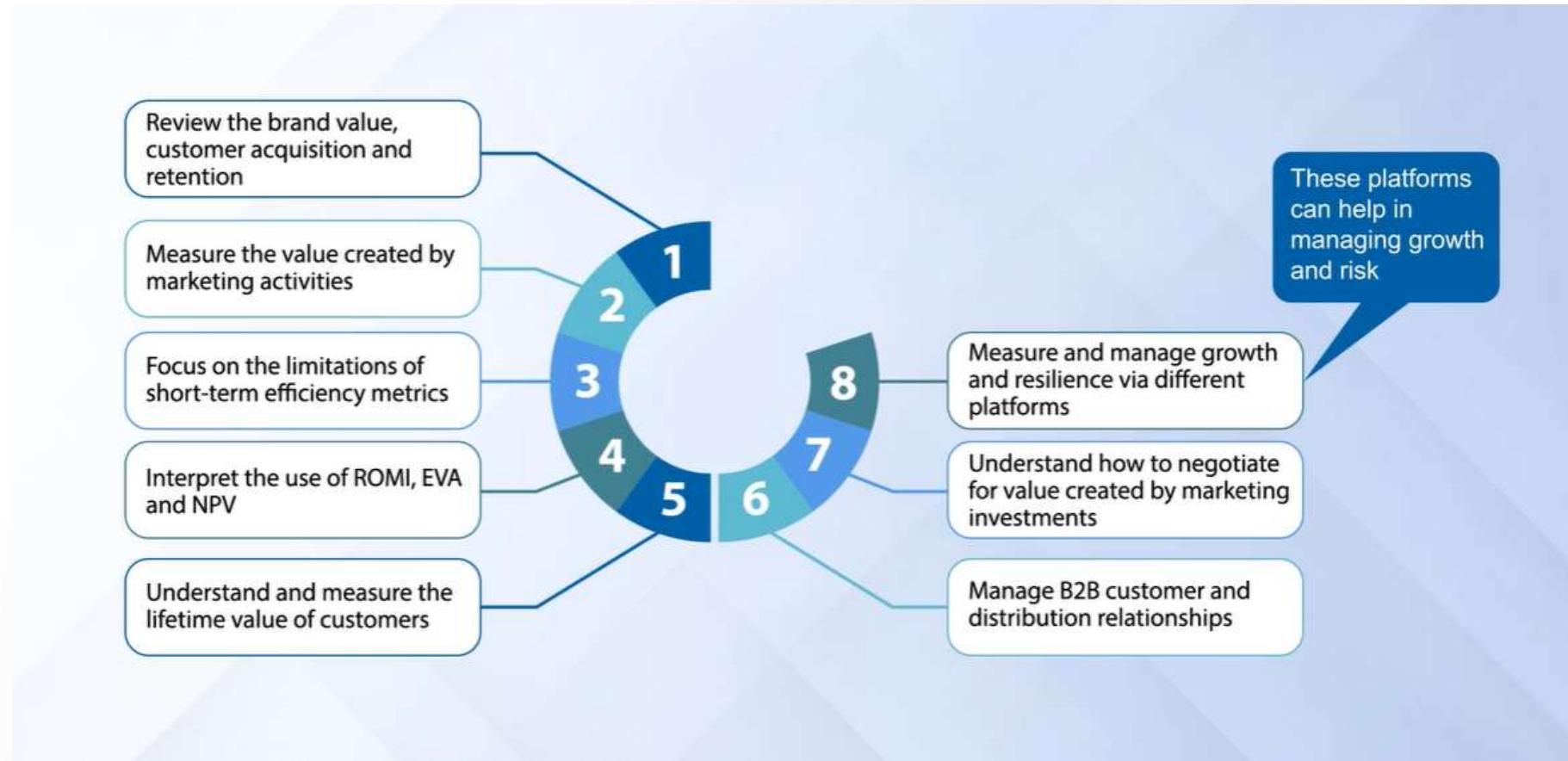
Learning Objectives



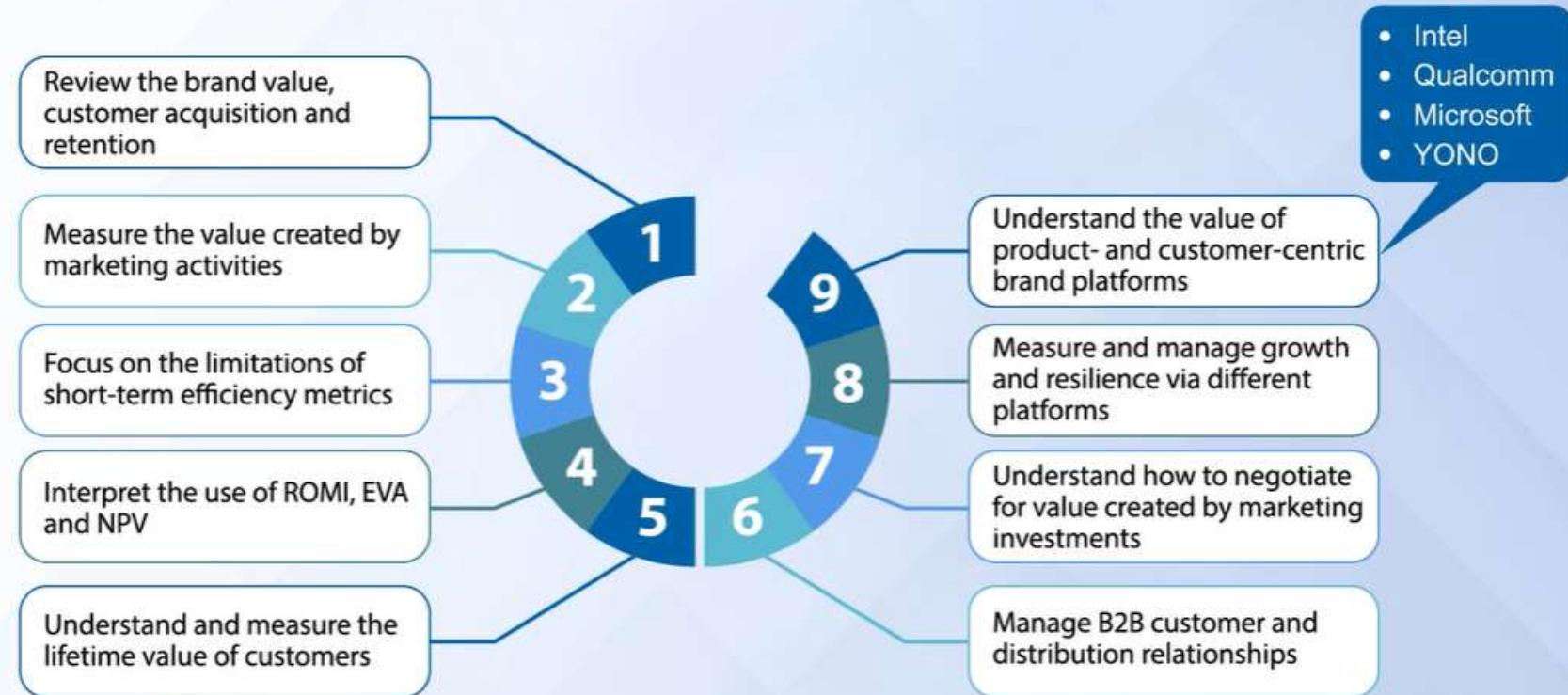
Learning Objectives



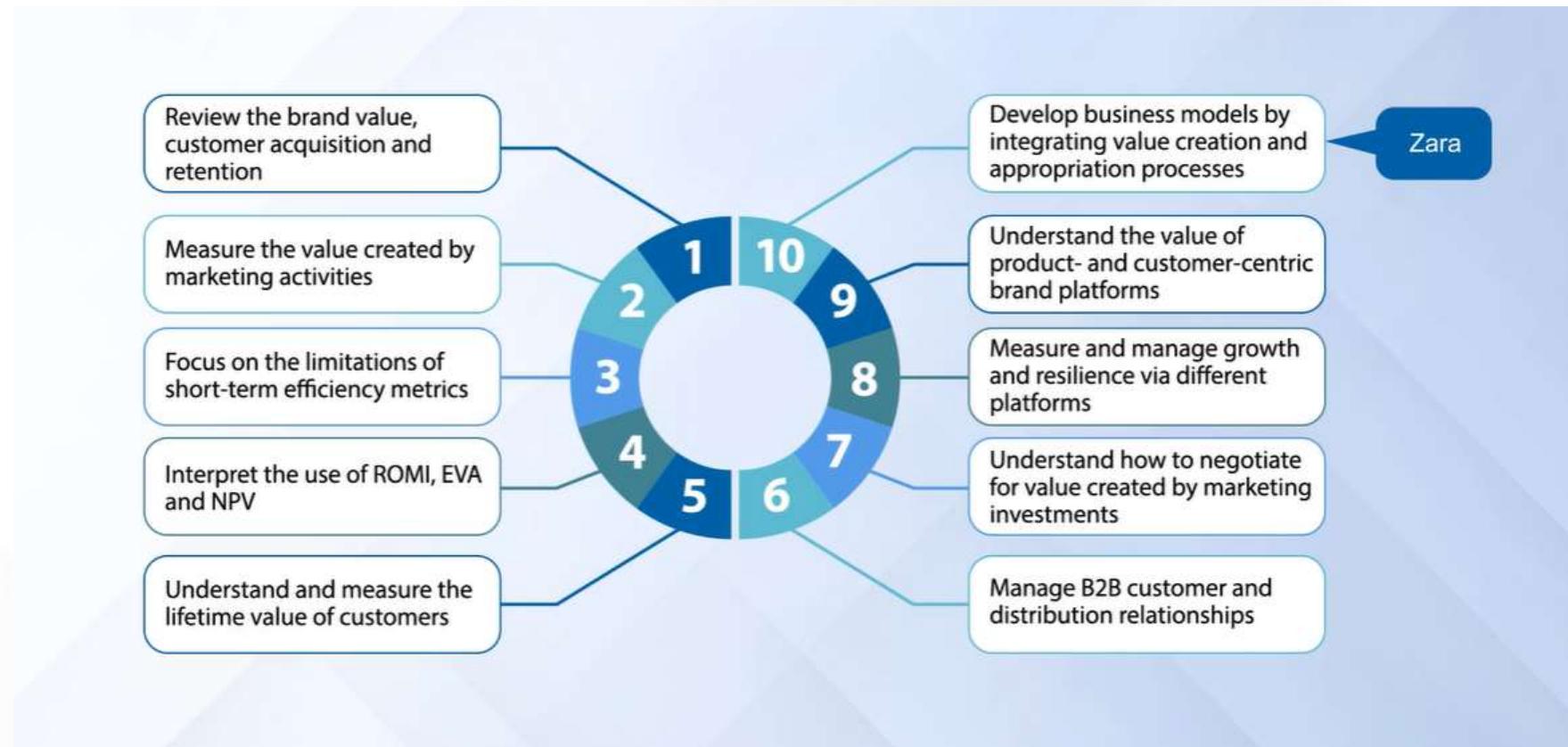
Learning Objectives



Learning Objectives



Learning Objectives



Review and Reiteration - Integrative Perspective - Product Brand Position, Pricing and Distribution

De-commoditise Market



Ways to De-commoditise Market



Role of Brands in Generating Pricing Power



- Brands are built to compete in the marketplace.
- Brand strength ensures appropriate value from the marketplace.

Brand Value



Brand value is intangible and is based on experience and trust rather than functions.

Brand Value: iPhone and Samsung



Market Imperfections

Market imperfections enables to extract value in terms of:

Pricing power

Provides pricing flexibility and margins, cash flows

Market share

Increase share-of-wallet, reduce risk

Competition protection

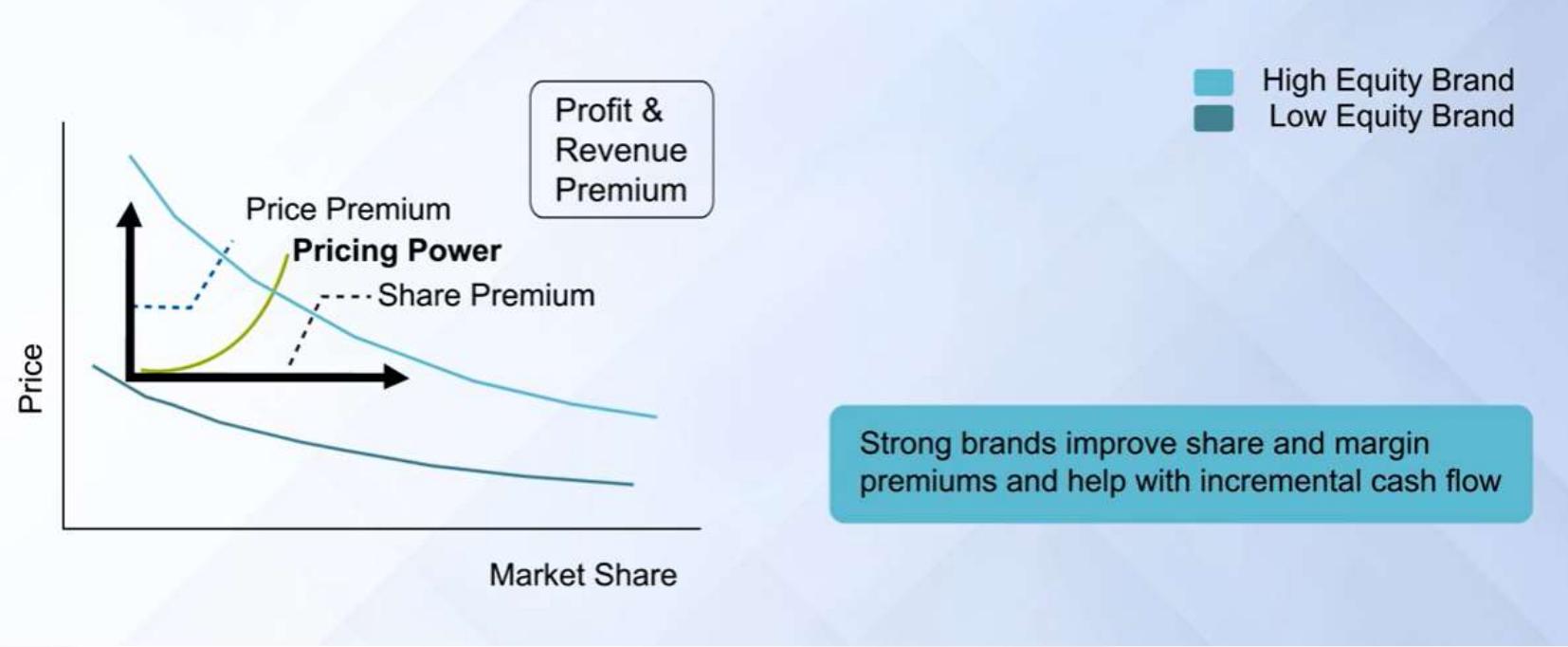
Leverage for offense and defense, customer loyalty

Brand Value: Automobiles and Shoes

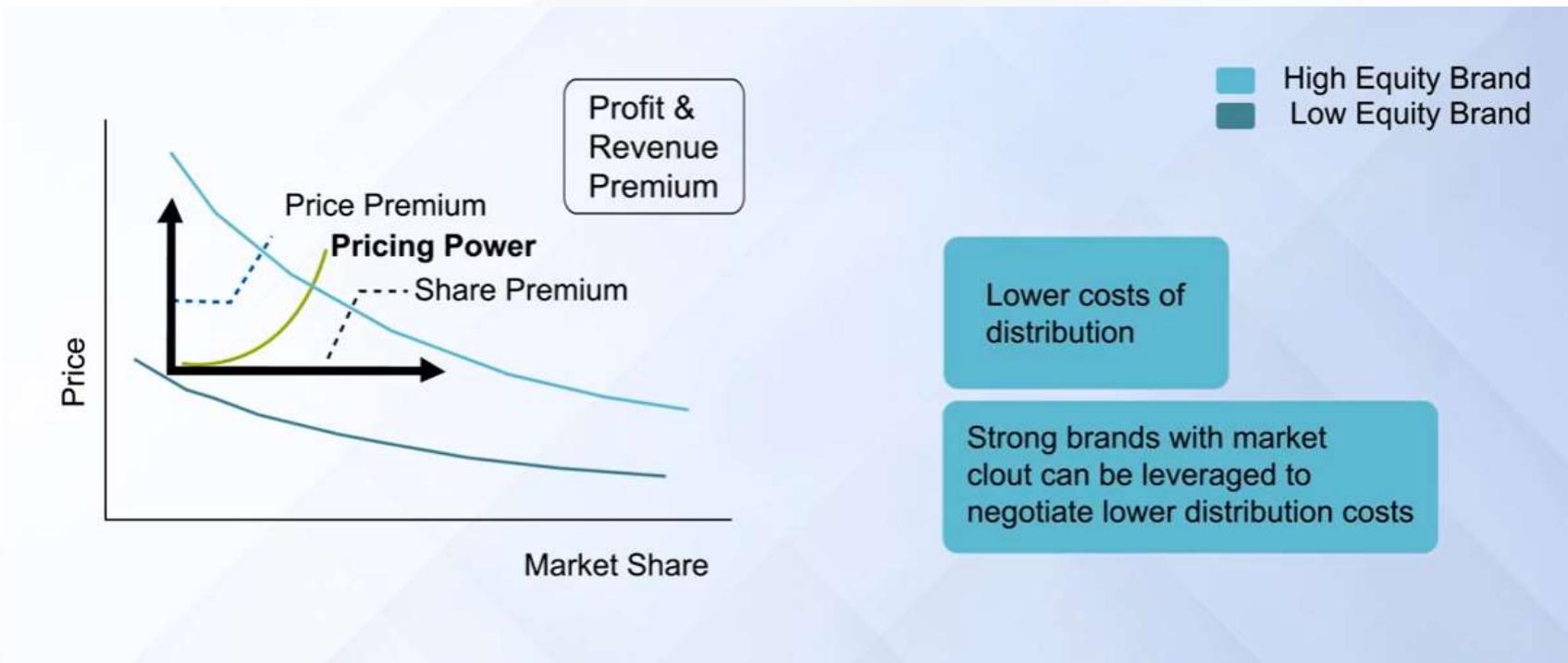


Brand value is universal.

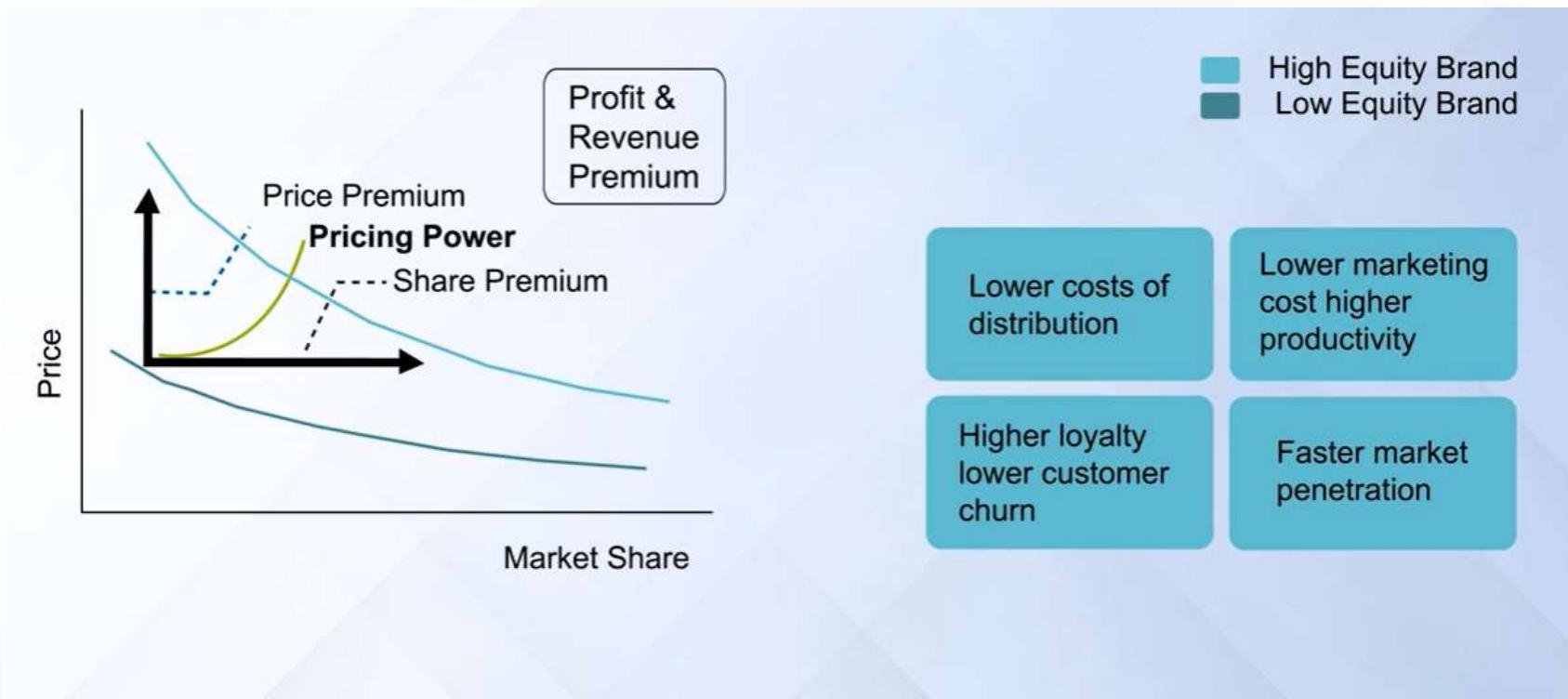
Impact of Brands on Financial Performance



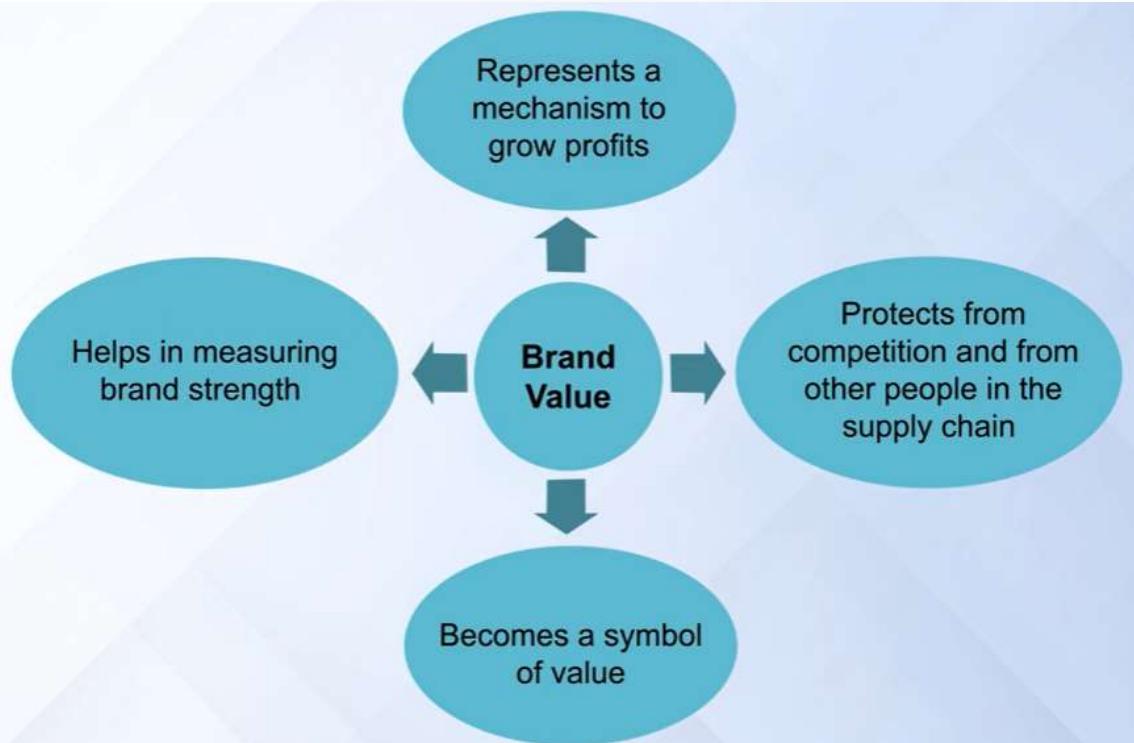
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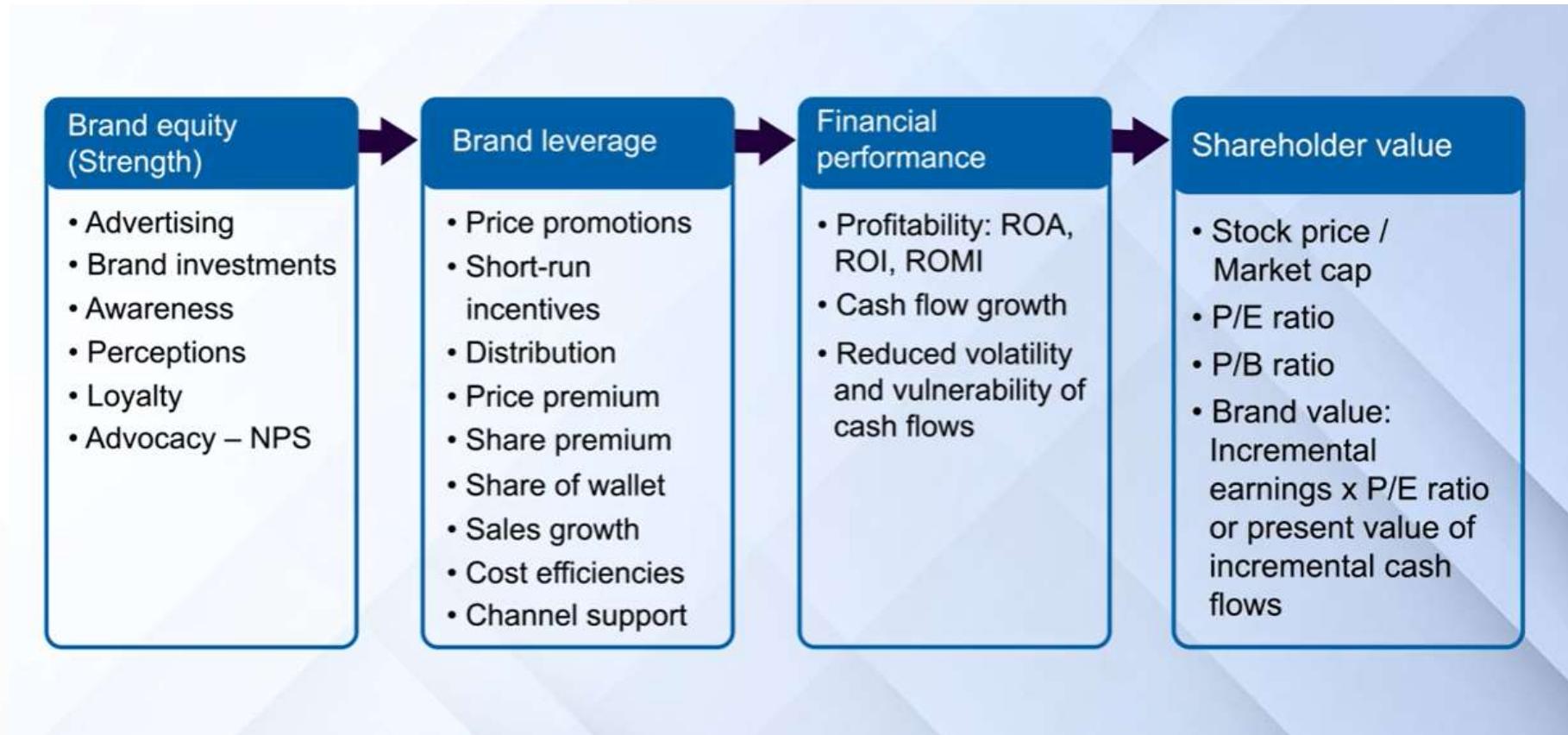
Impact of Brands on Financial Performance



Brand Value

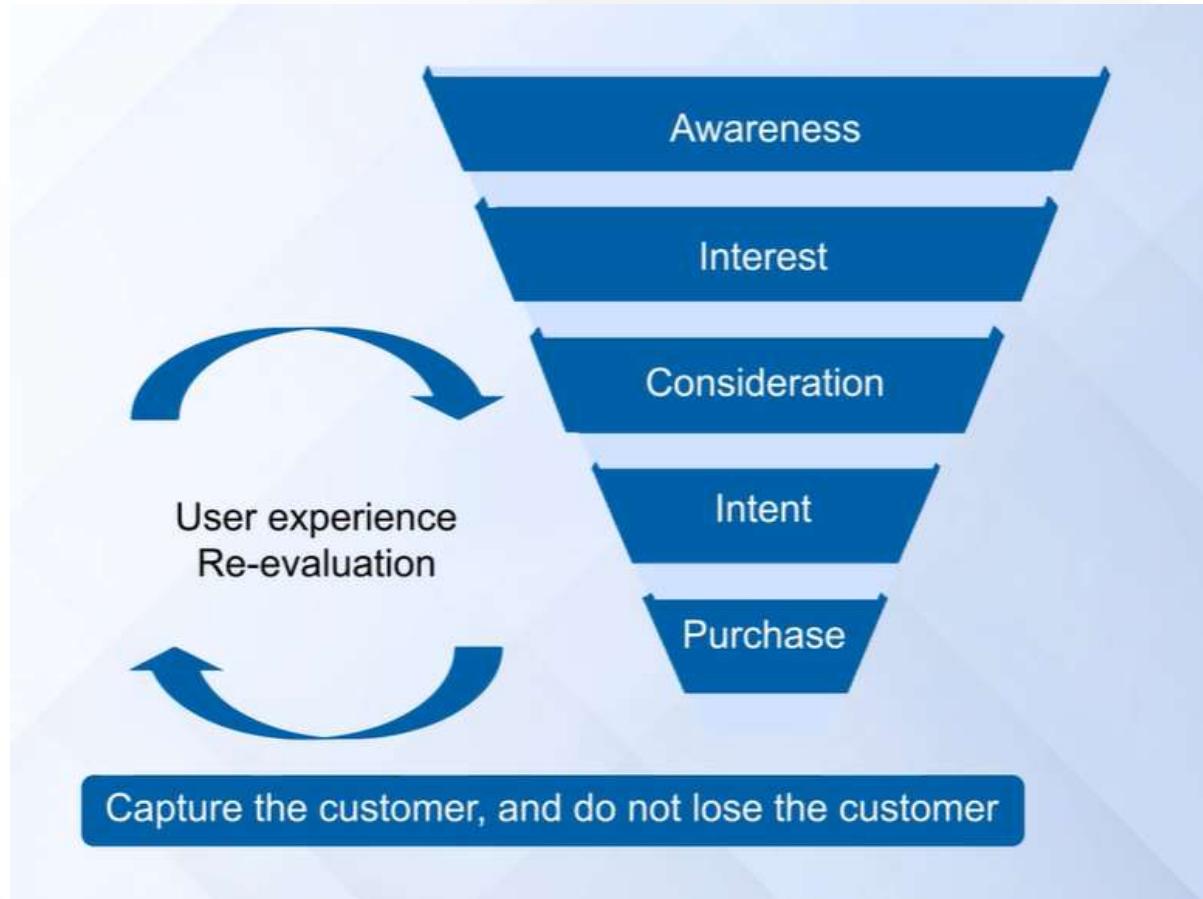


Brand Performance Metrics: Shareholder Value



Customer Acquisition and Retention

Sales Funnel and Repurchase Cycles



Customer Management Strategies: Capital One



Customer Management Strategies: AARRR Framework



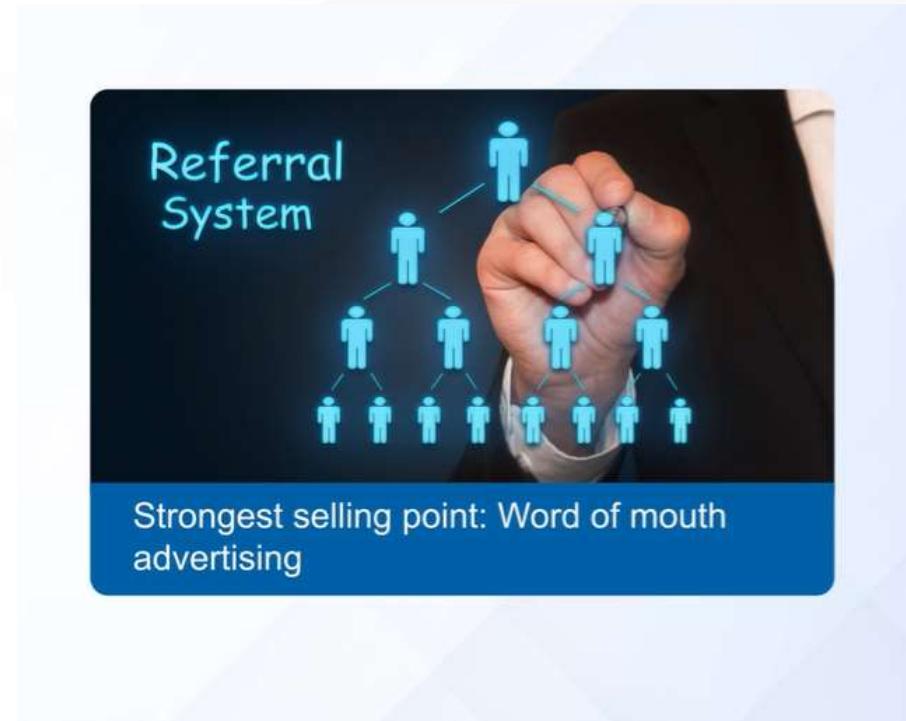
Focus on Customer



- Give customers reasons to do business with your company rather than your competitor
- Interact with customers

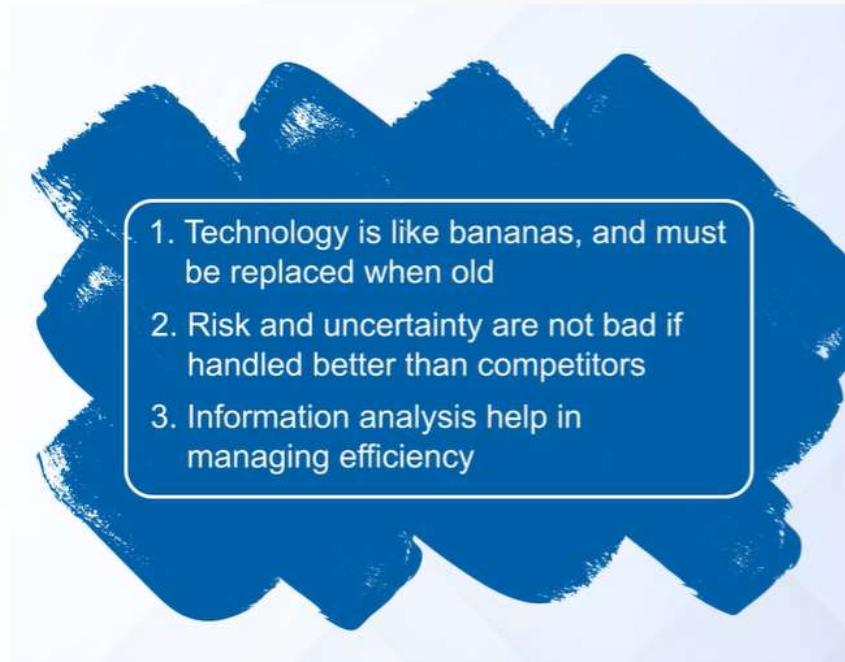
Make money while not giving away your product.

Referral Business

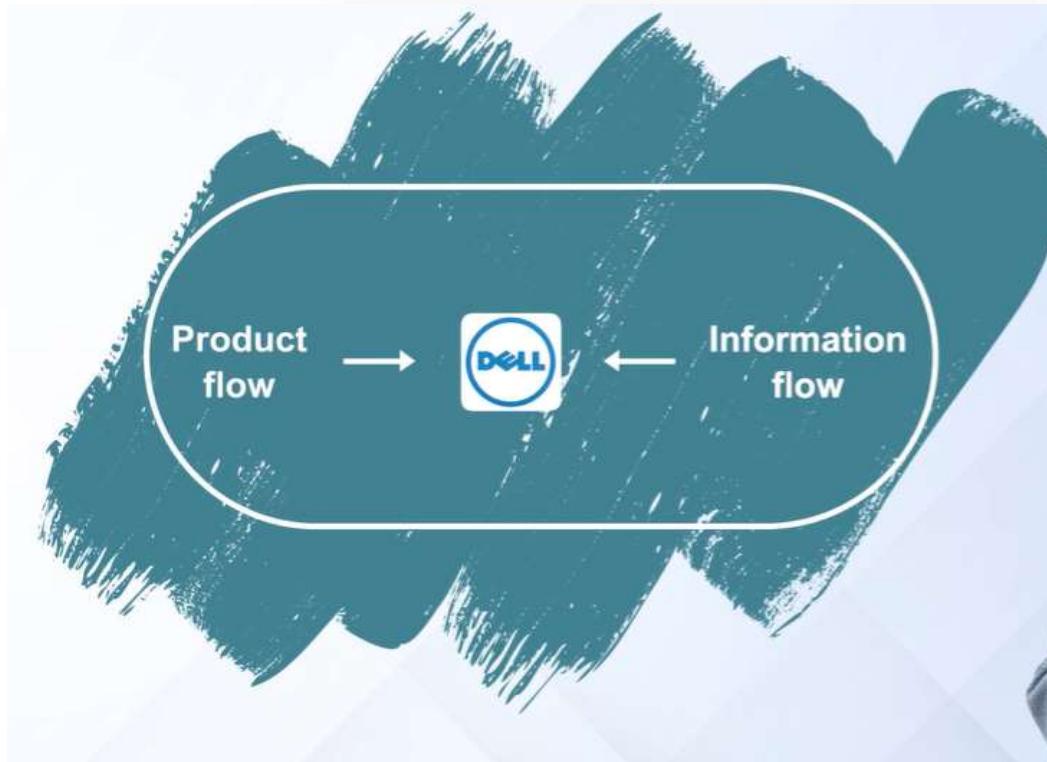


Engineering Profits at Dell

Key Learnings

- 
1. Technology is like bananas, and must be replaced when old
 2. Risk and uncertainty are not bad if handled better than competitors
 3. Information analysis help in managing efficiency

The Dell Business Model



Vendor Management Inventory



- Keep inventory on Dell premises to use when needed
- Ensure high product quality and efficient inventory management for higher share of sales
- Enable better product flow and information flow management

Dell Business Model



Market Preferences



- Analysed and promoted popular selling configuration
- Preconfigured 80-90% of the product and added specific modules to complete the order

Working Capital



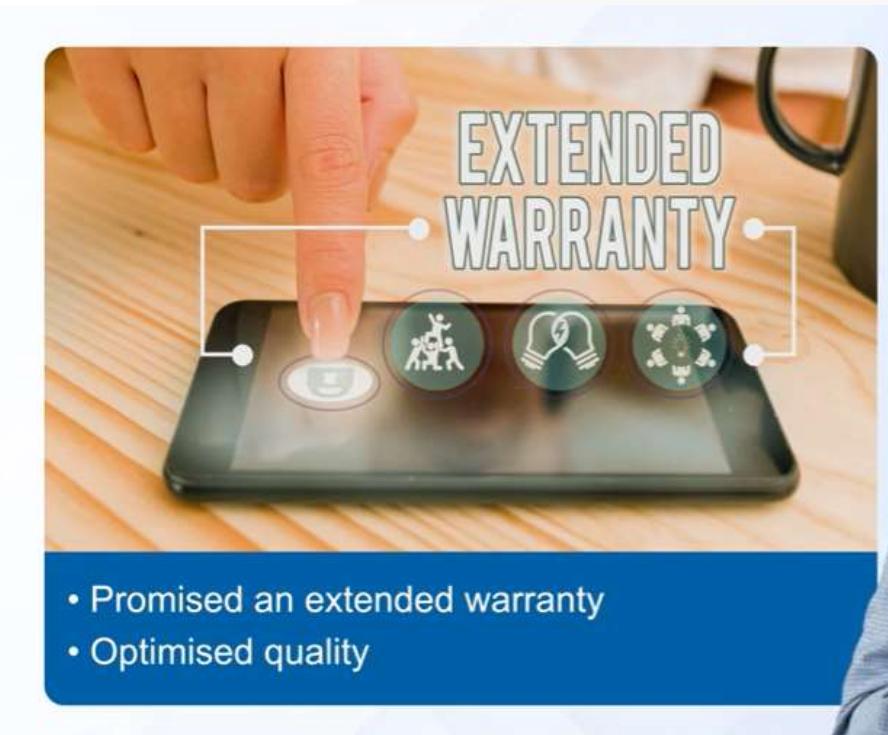
- Maintained receivables at a minimum
- Reduced the inventory at hand
- Kept only a five-day inventory compared to HP's 55 days

Capital Investments



Minimised capital investments by
outsourcing and multi-sourcing

Service and Support



Cash Conversion



Dell Business Model



Dell Business Model

Demand Chain
Capital Investments
Price experimentation

(play around with prices to understand
market sensitivity)

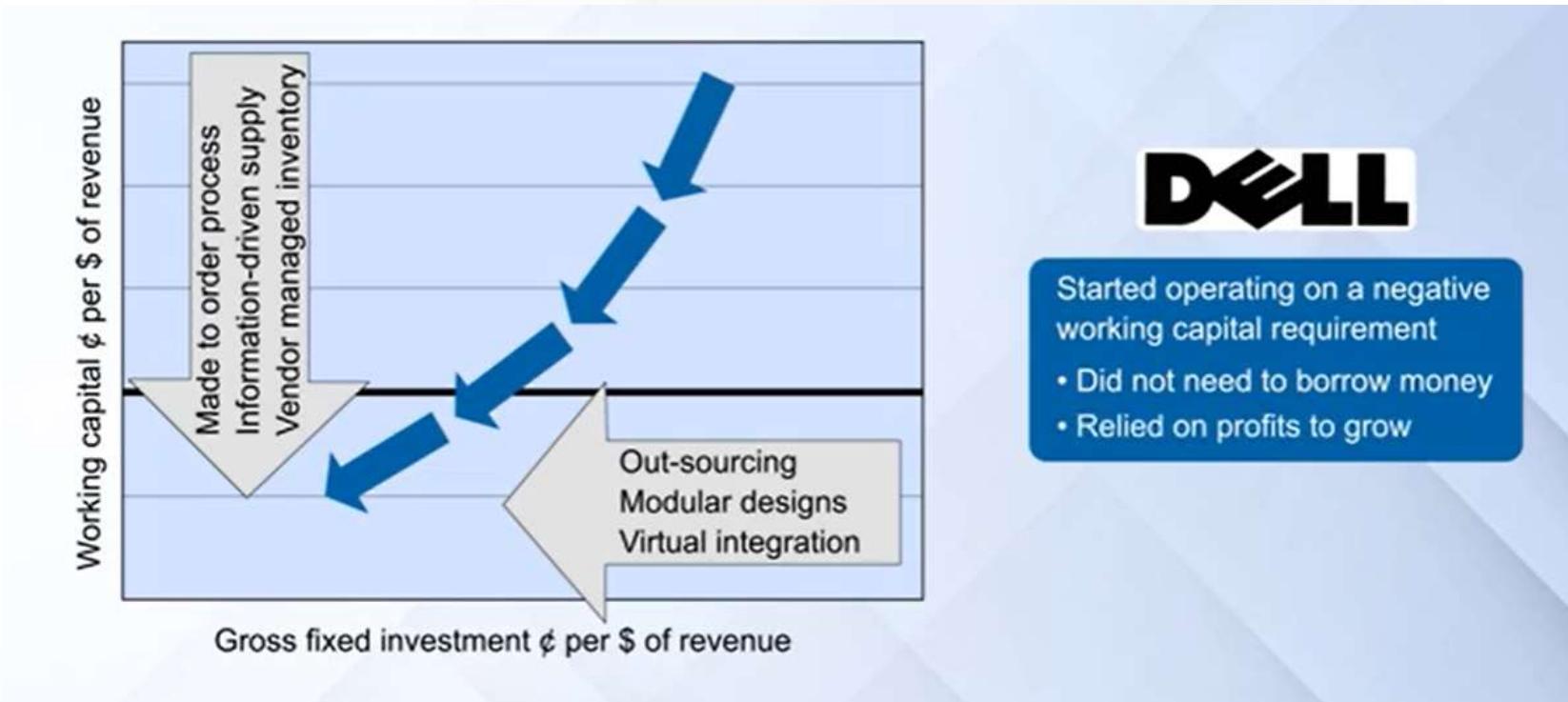
Market Preferences
Service and Support



Multiple suppliers
(for same product and components to help
bring down the cost)

Working Capital
Cash Conversion

Asset Efficiency/Cash Conversion Cycle Model



Competitor Business Model Comparison

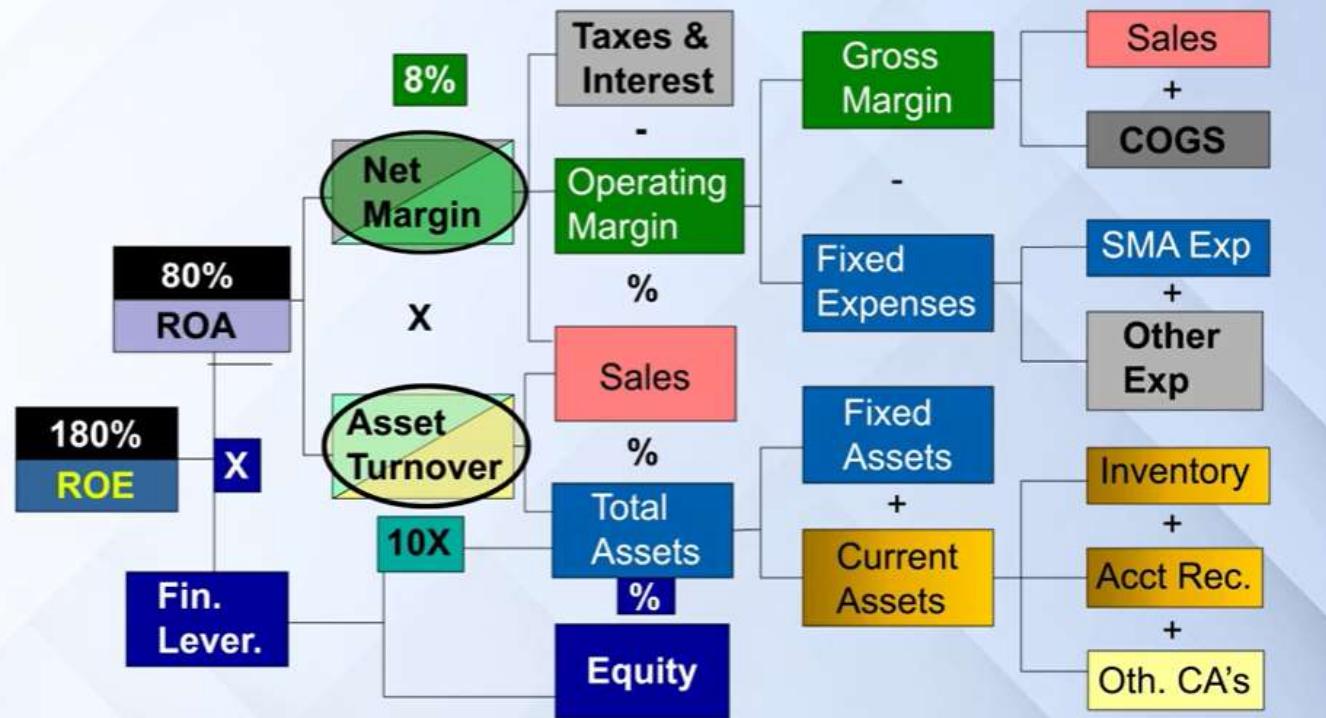
Dell

Managed supply
chain end-to-end

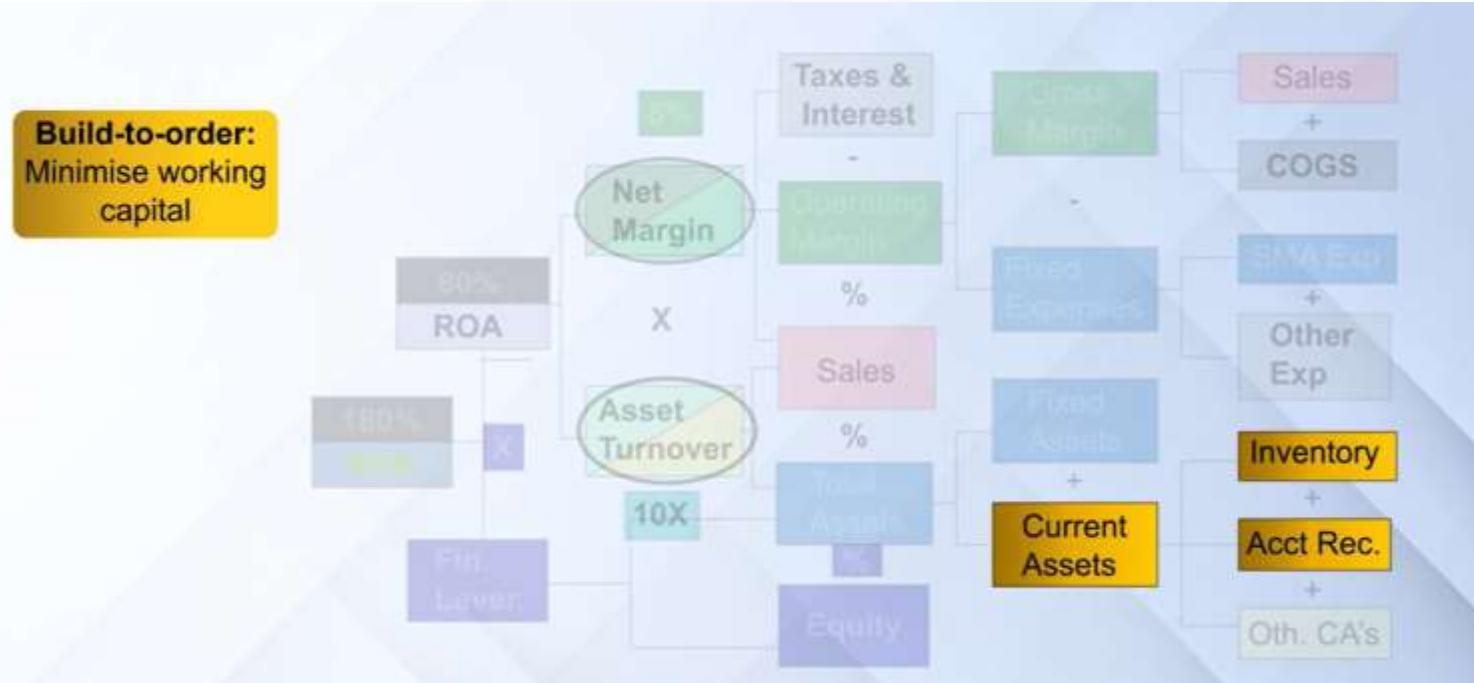
HP

Lacked control
over outsourced
supply chain

How Dell Fits Into DuPont Model

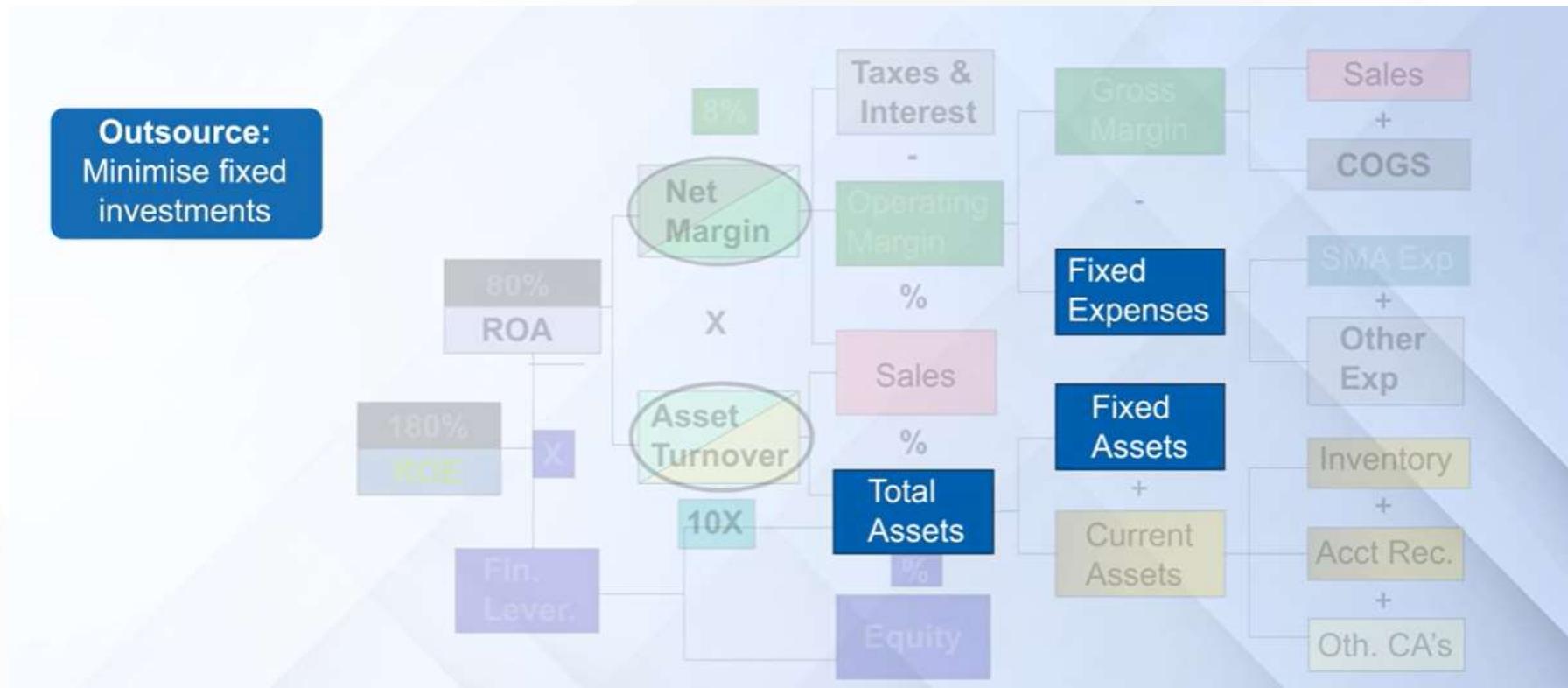


How Dell Fits Into DuPont Model

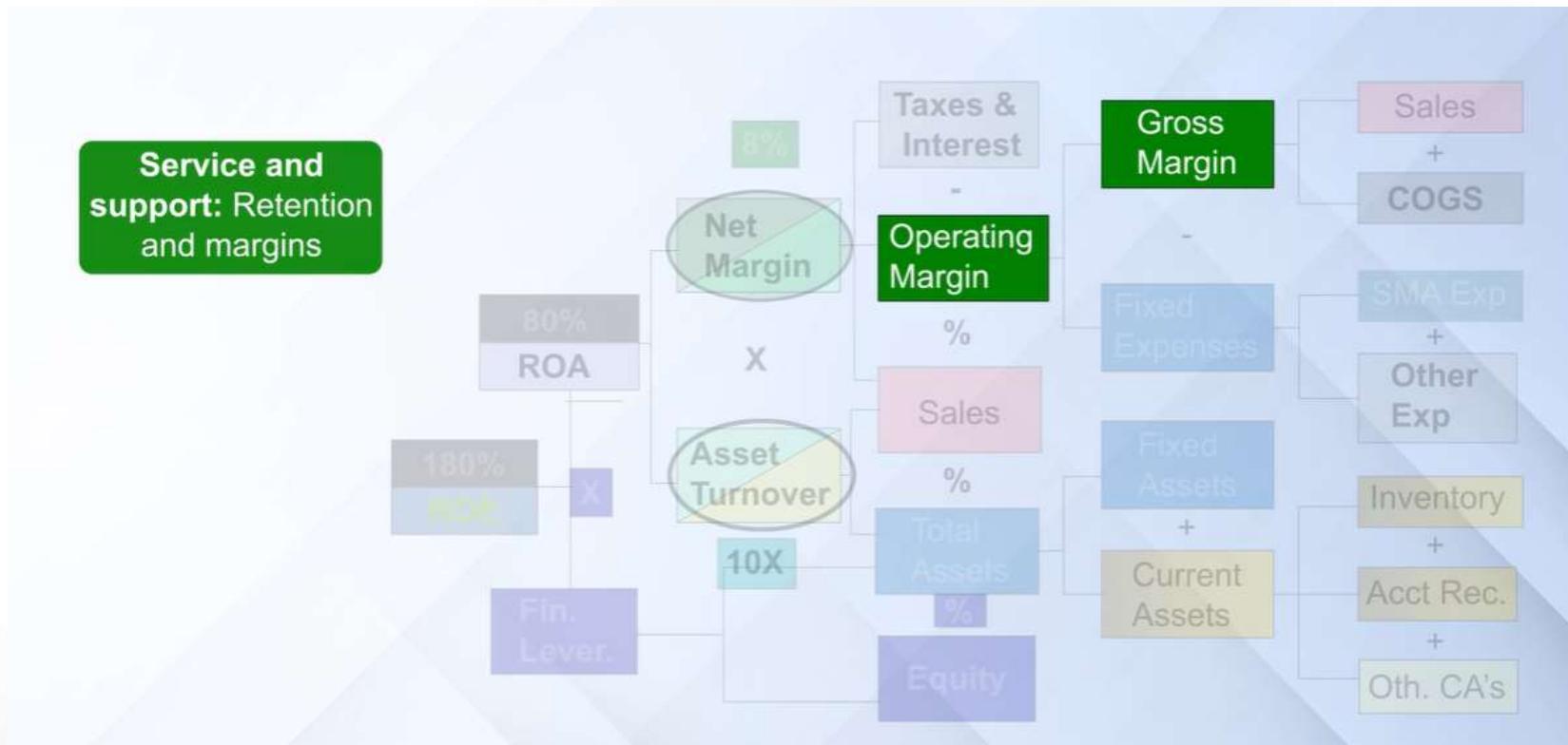


Build-to-order:
Minimise working capital

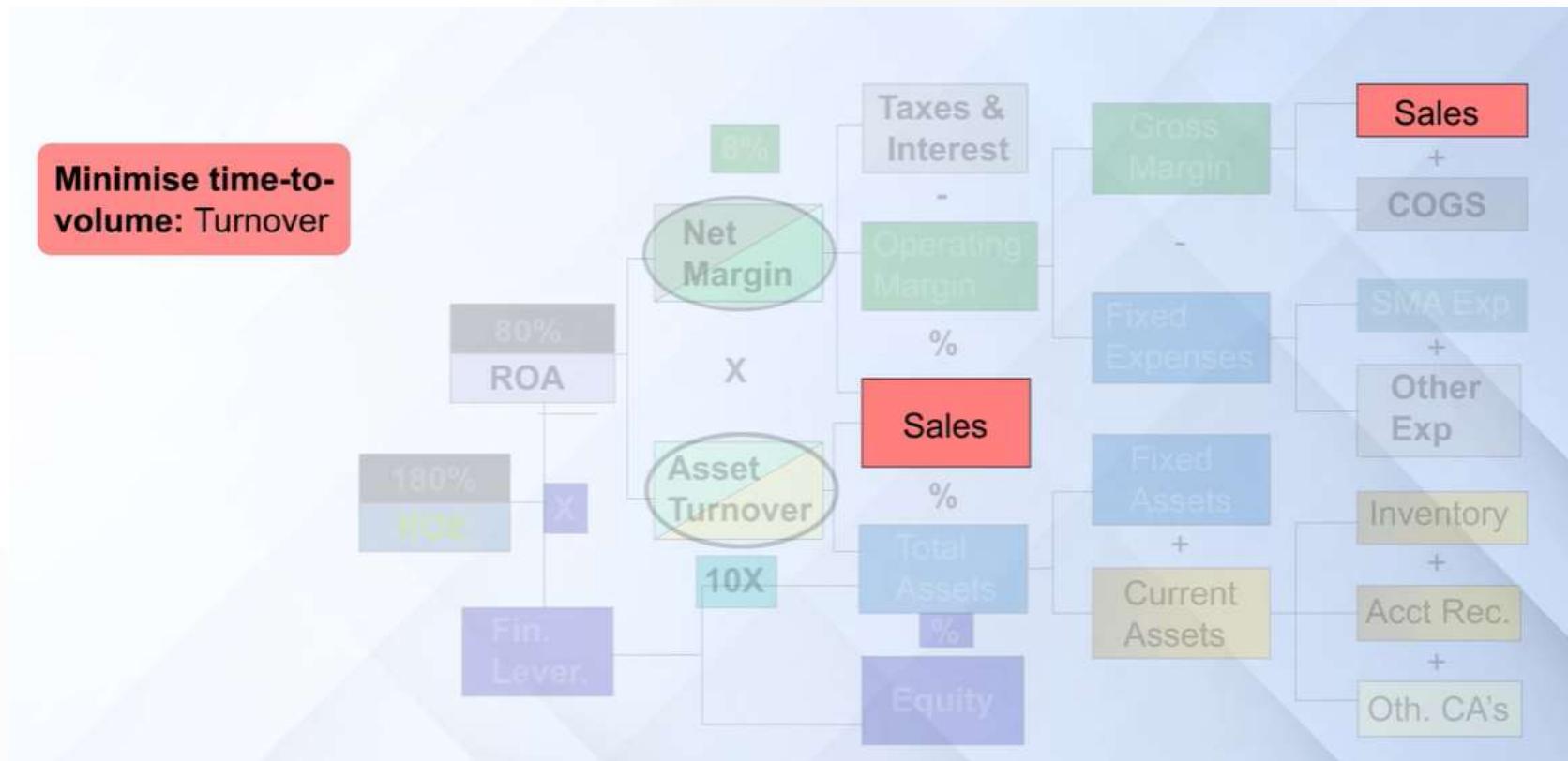
How Dell Fits Into DuPont Model



How Dell Fits Into DuPont Model



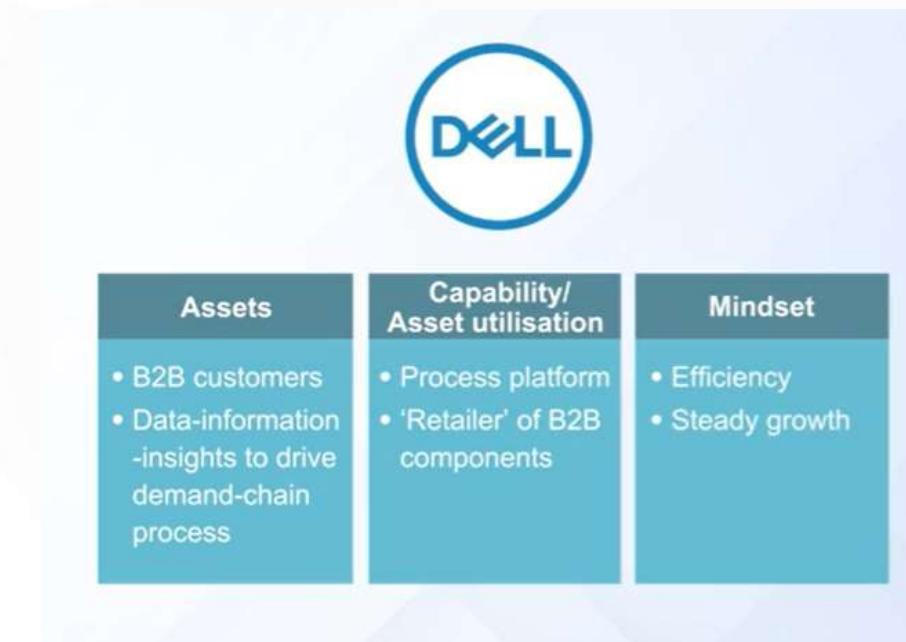
How Dell Fits Into DuPont Model



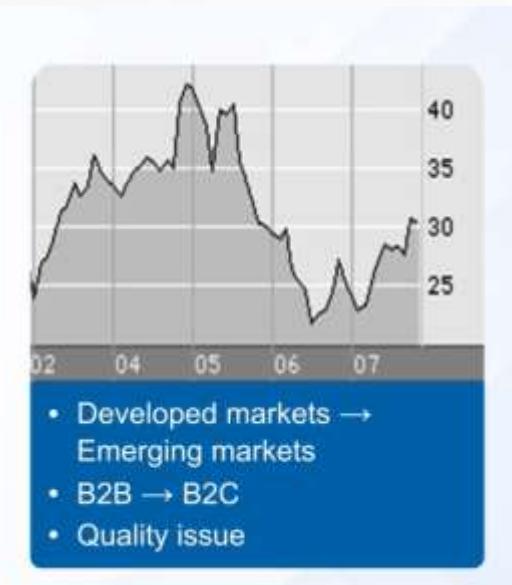
Minimise time-to-volume: Turnover

Limitations of Efficiency Metrics

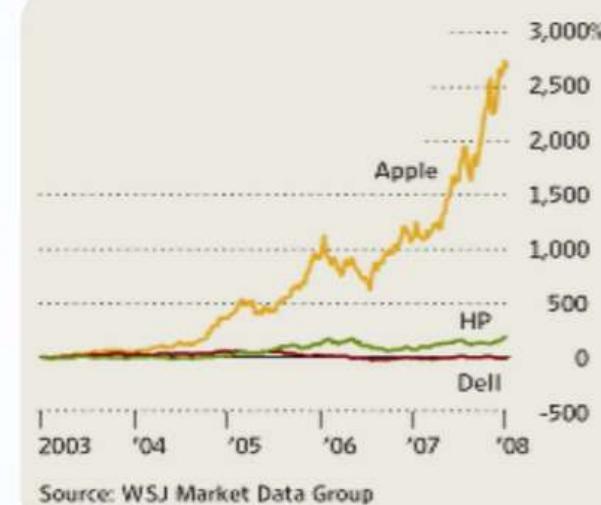
What We Have Learned from Dell: Implications



For Whom the Dell Tolls? (2006)



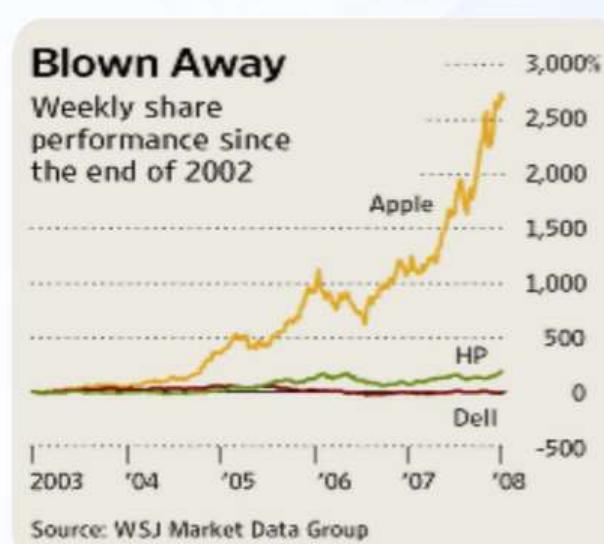
Dell and Apple Market Performance in 2000s



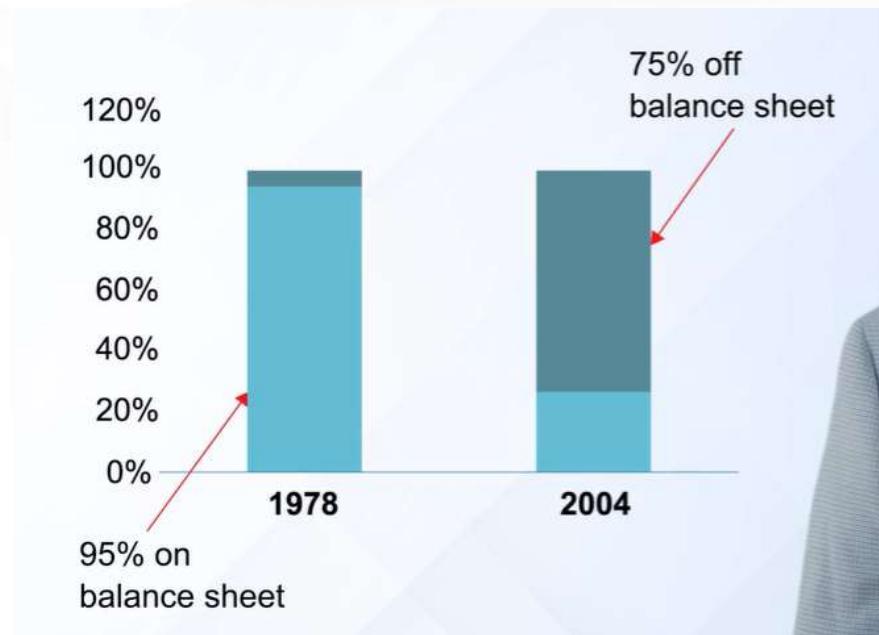
Dell and Apple Market Performance in 2000s



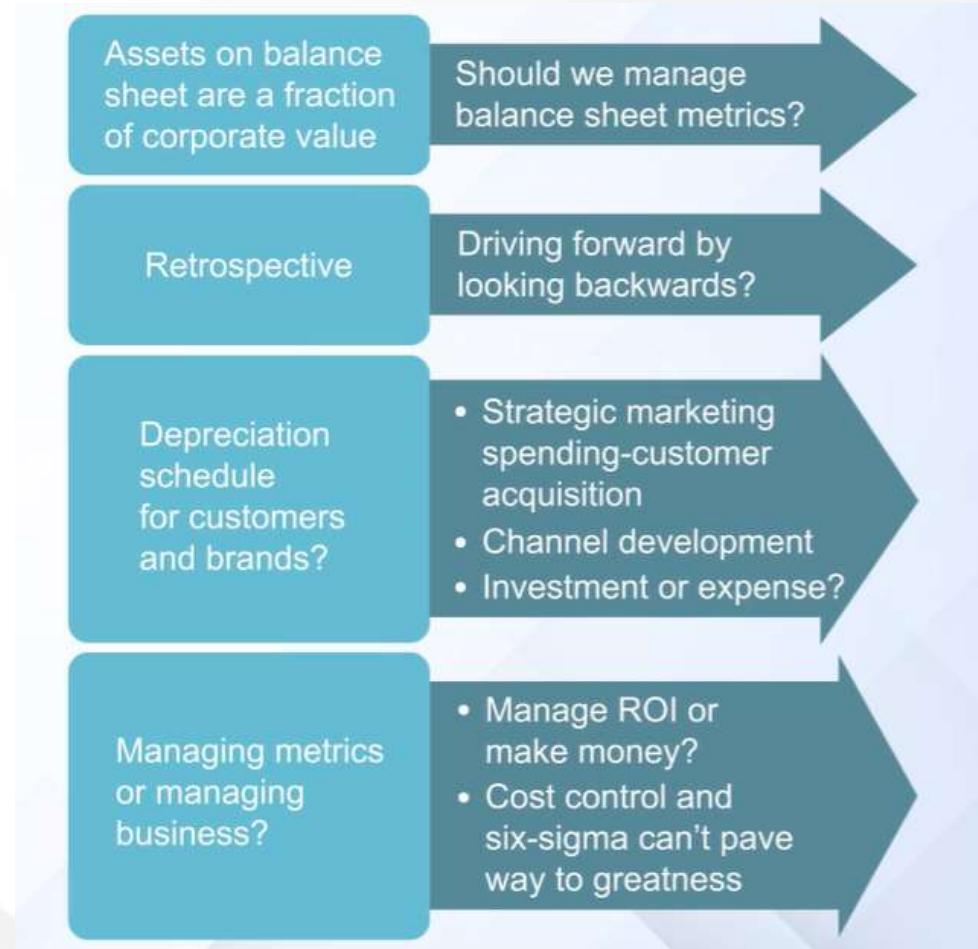
Dell and Apple Market Performance in 2000s



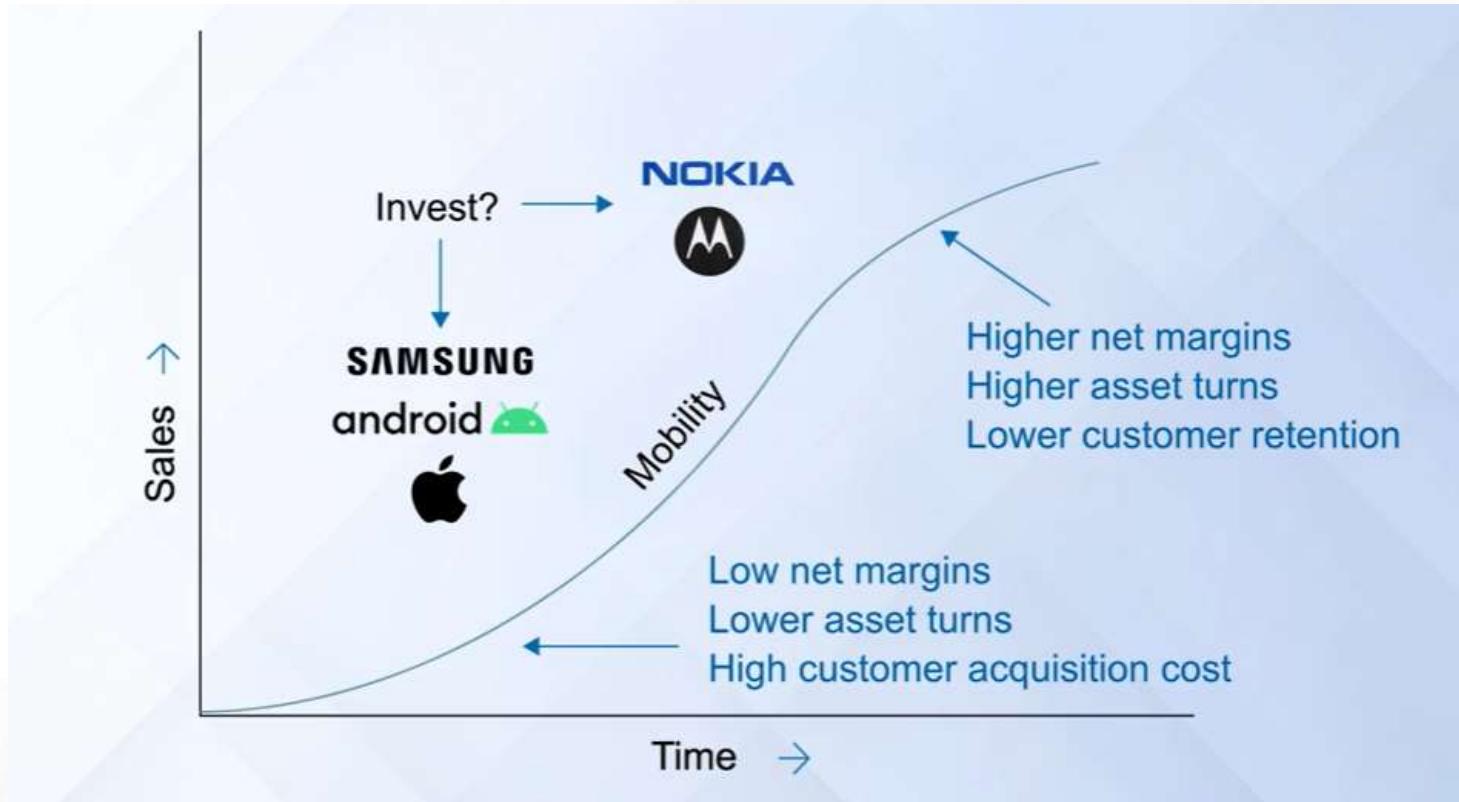
Limitations of Traditional Tool/Metrics



Limitations of Traditional Tool/Metrics

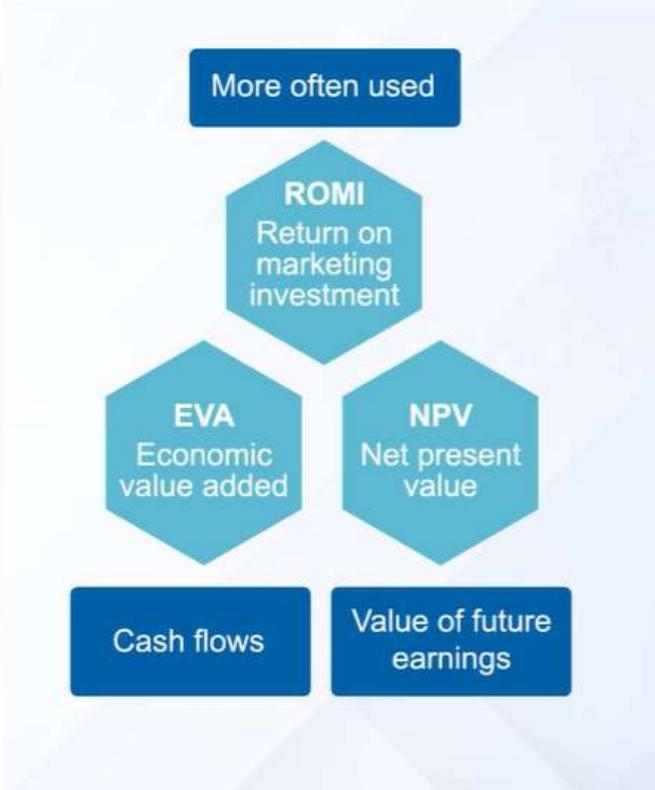


Limitations of Traditional Tool/Metrics

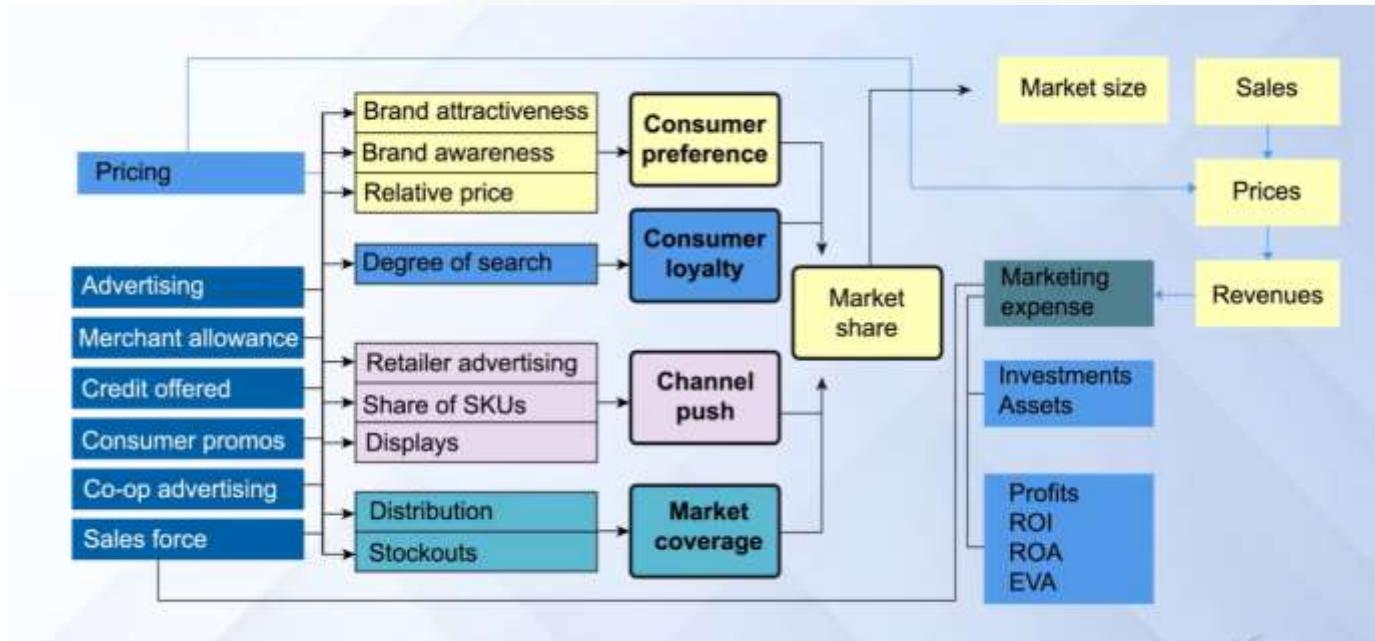


Performance Metrics: ROMI, EVA and NPV

Performance Metrics

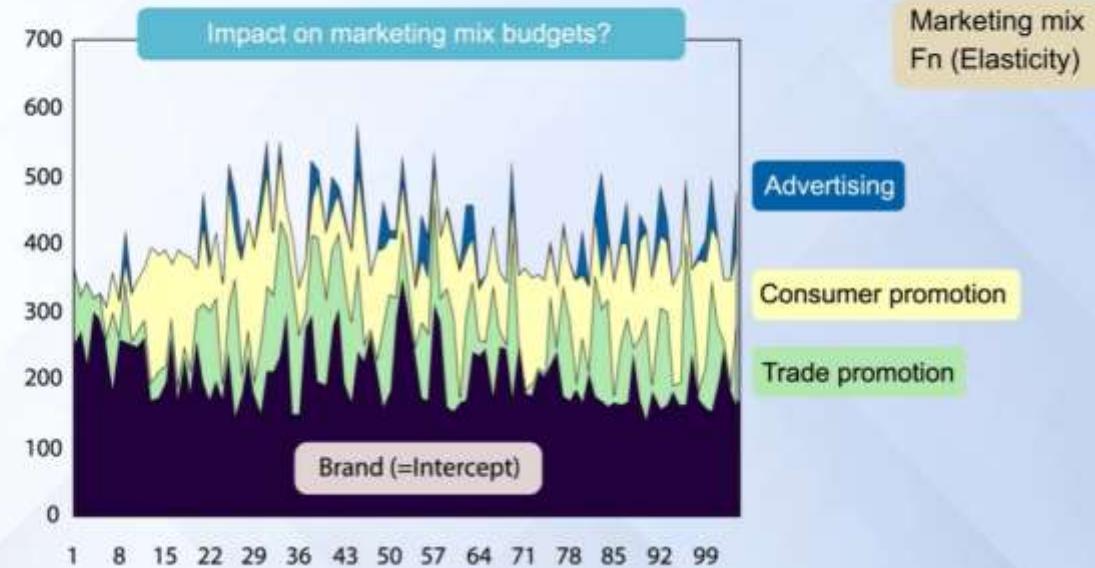


ROMI: A Marketing Dashboard



Brand Performance and Persistence

Market share = $B_01 + B_02 + \dots + B_{0n} + B_1^* \text{ Advertising} + B_2^* \text{ Trade promotion} + B_3^* \text{ Consumer promotion} + \text{Error}$

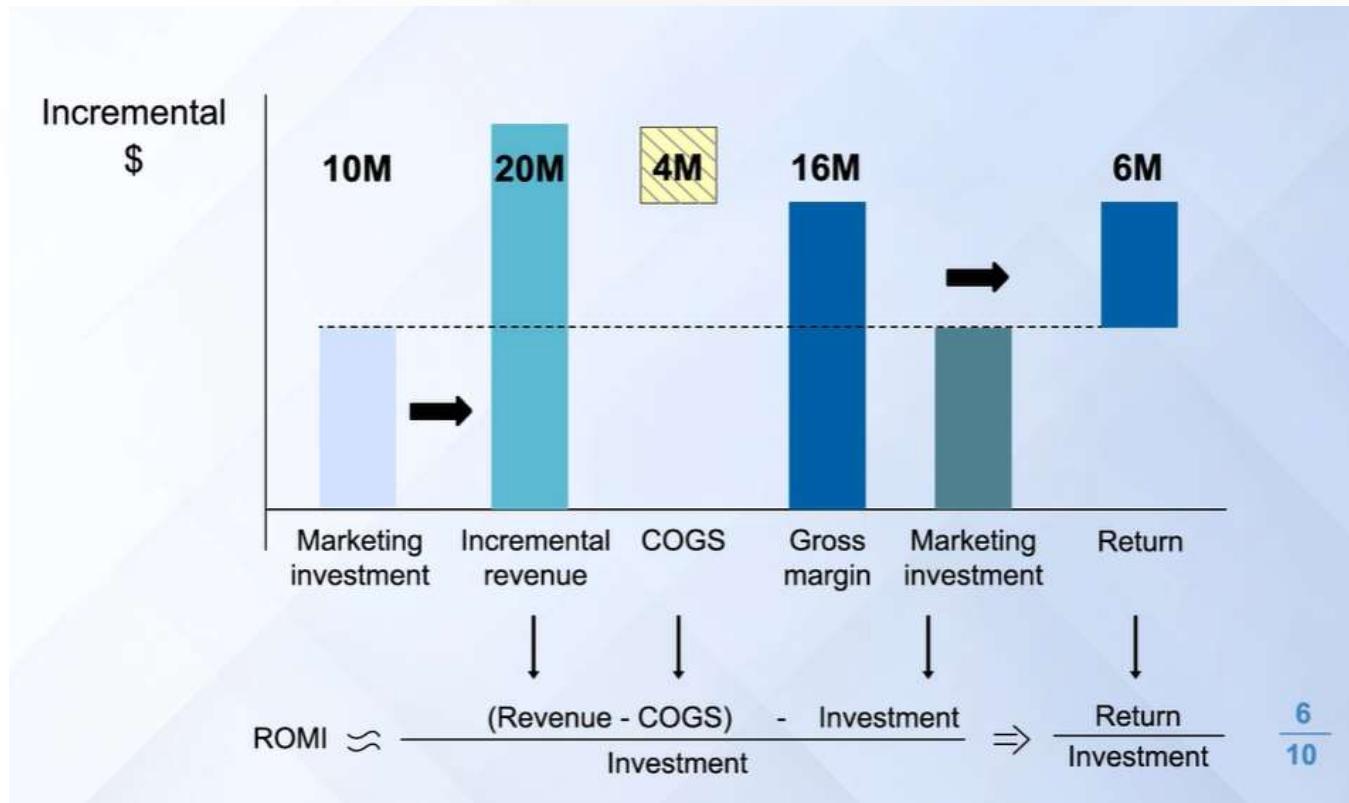


Impact on Brand Strength

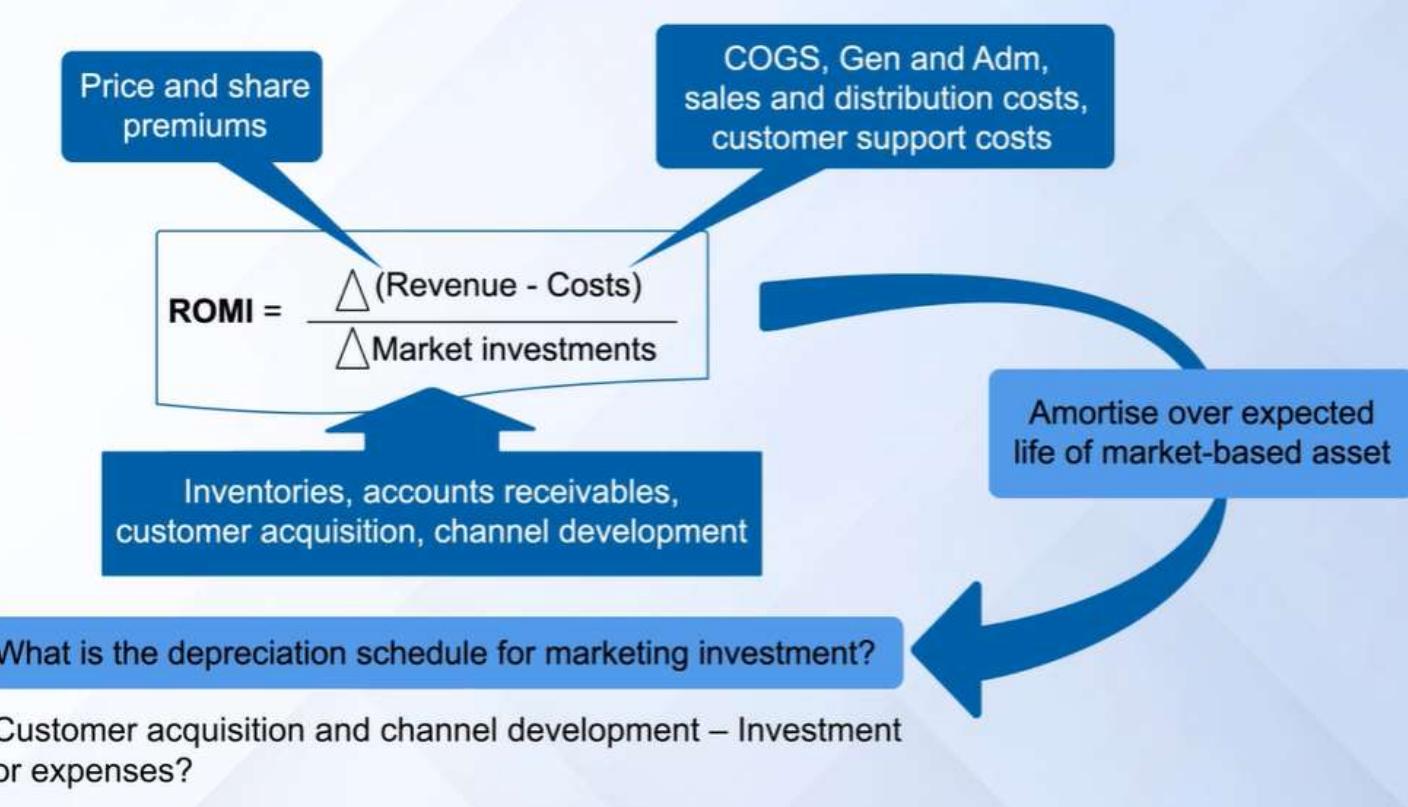


- Advertising builds brand strength.
- Price promotions erode brand strength.
- Price promotions train the consumer to pay attention to price.

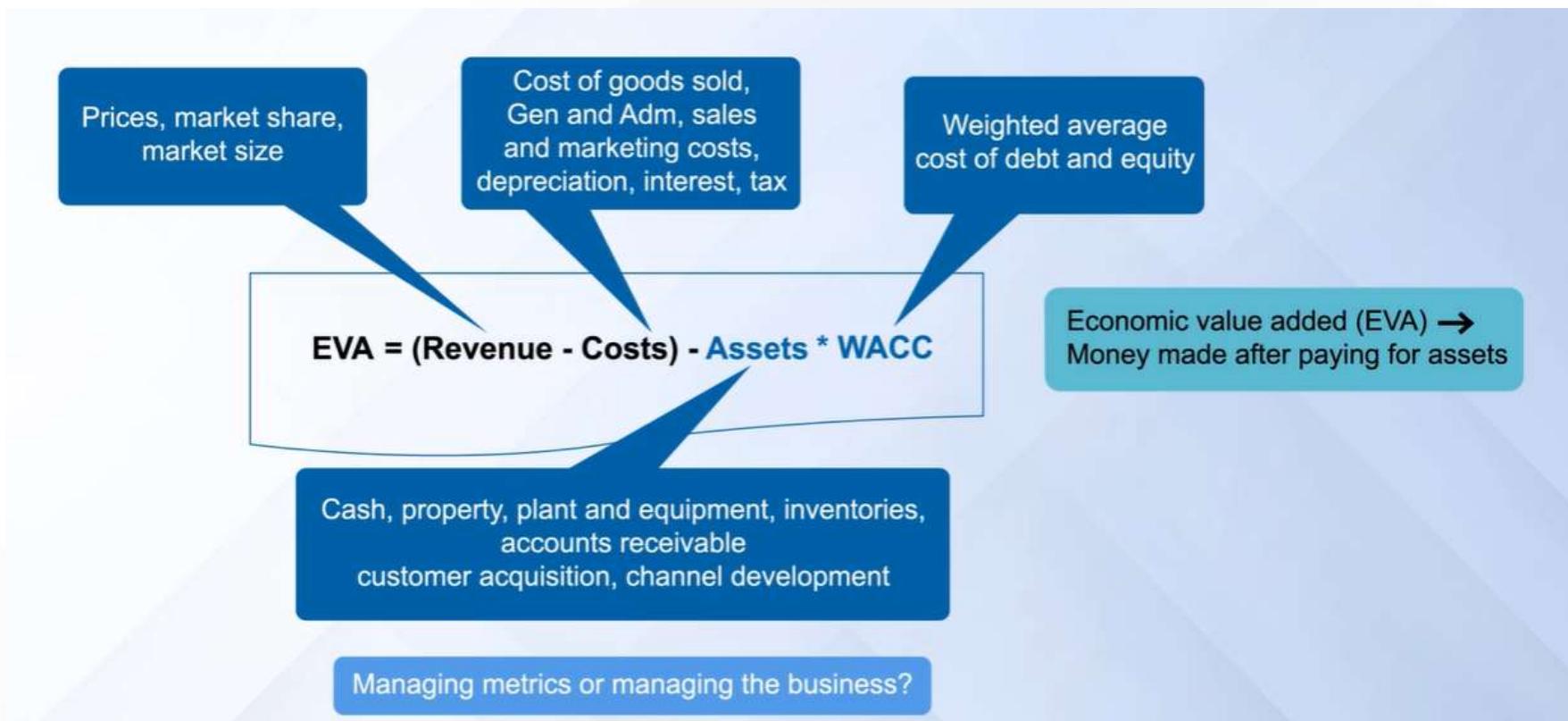
ROMI Calculation



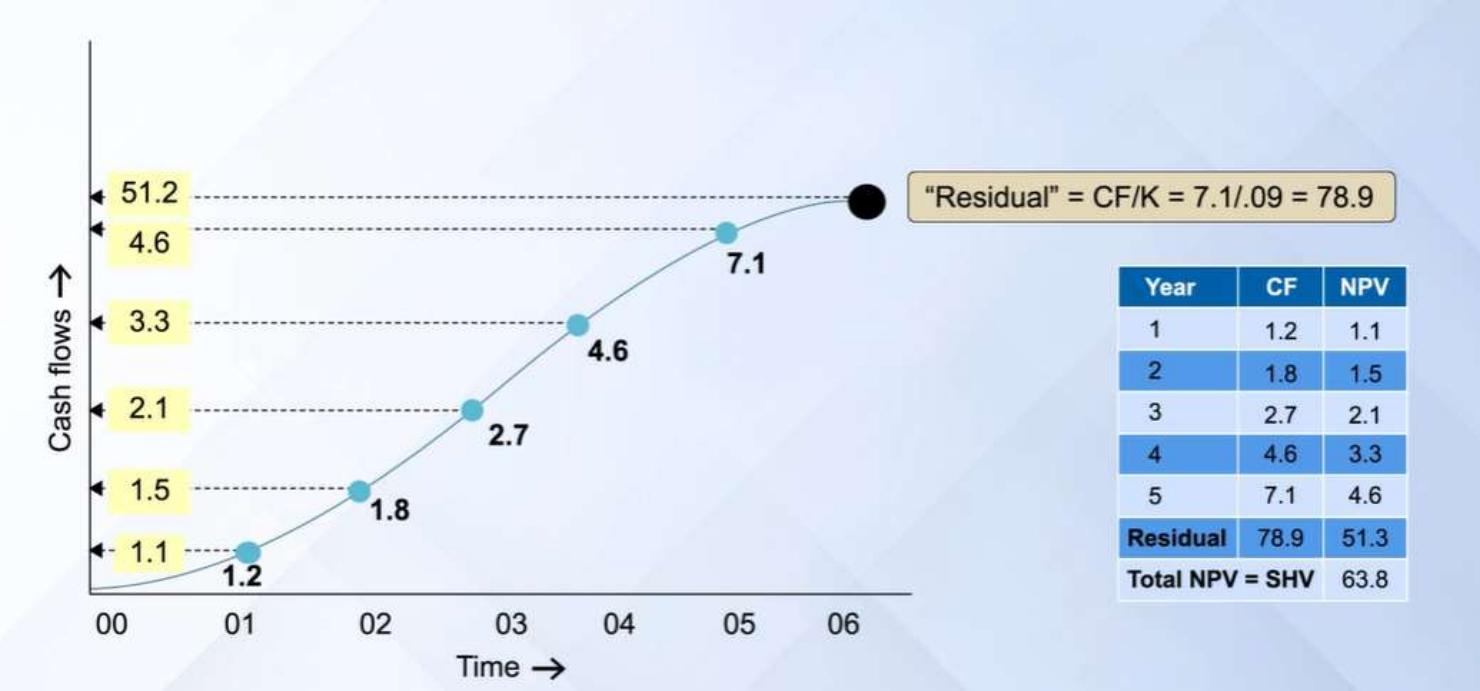
ROMI



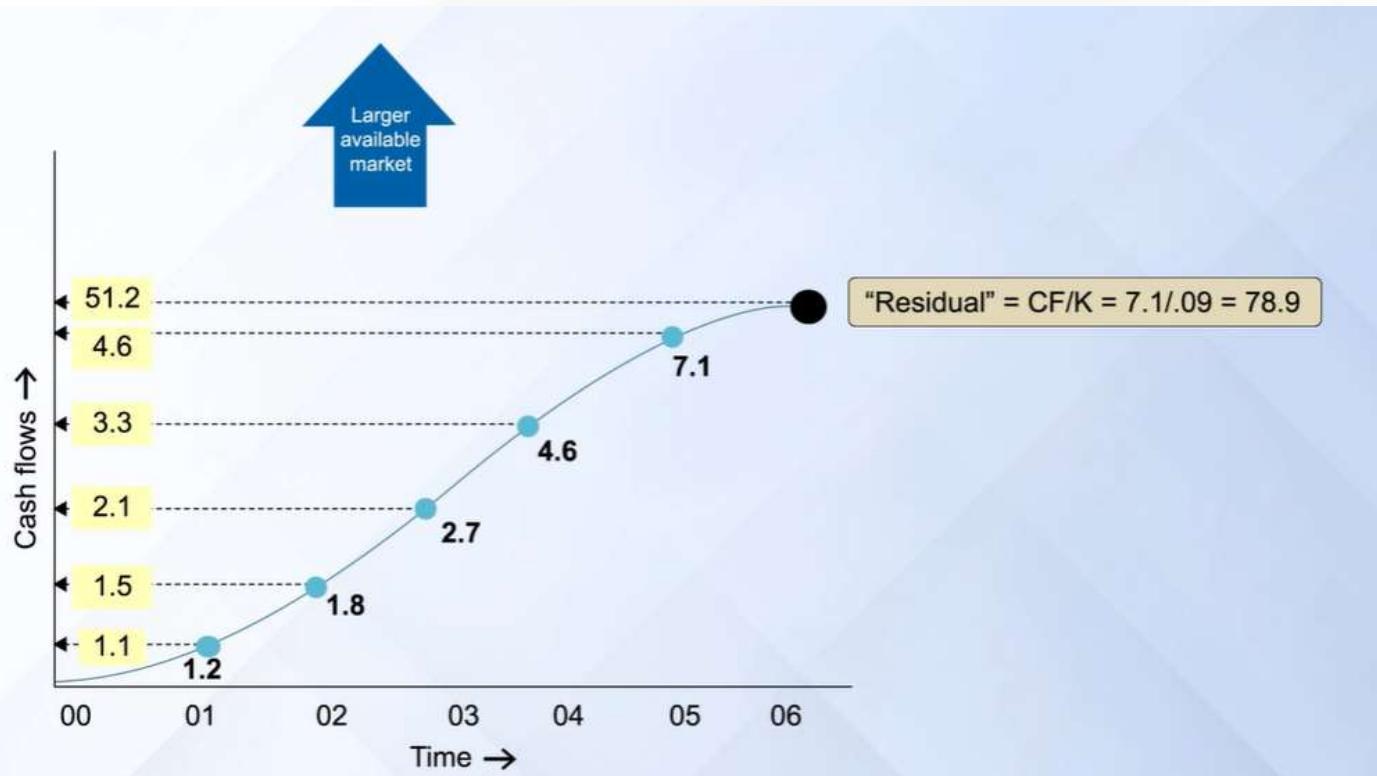
Economic Value Added (EVA)



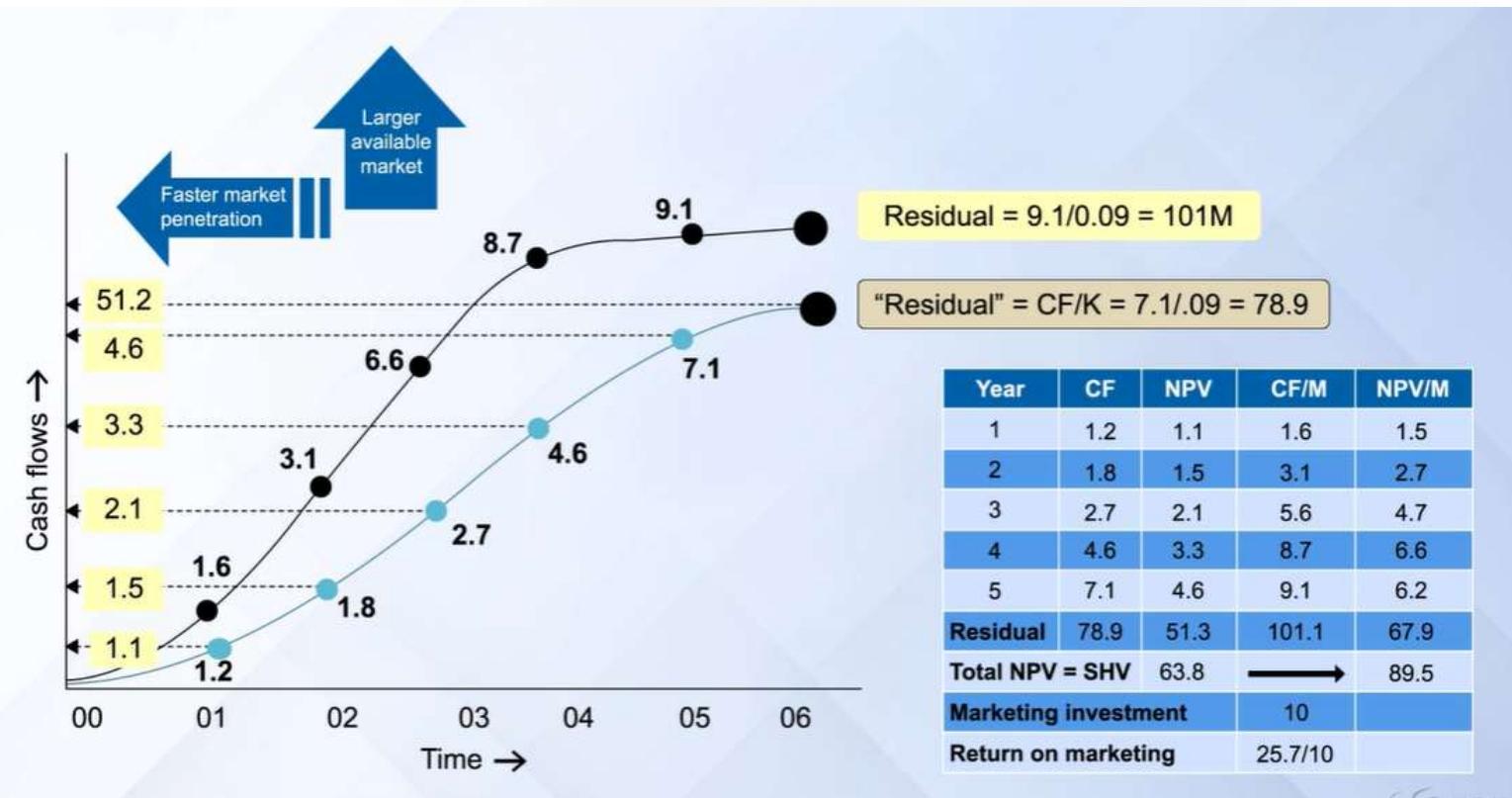
Net Present Value (NPV)



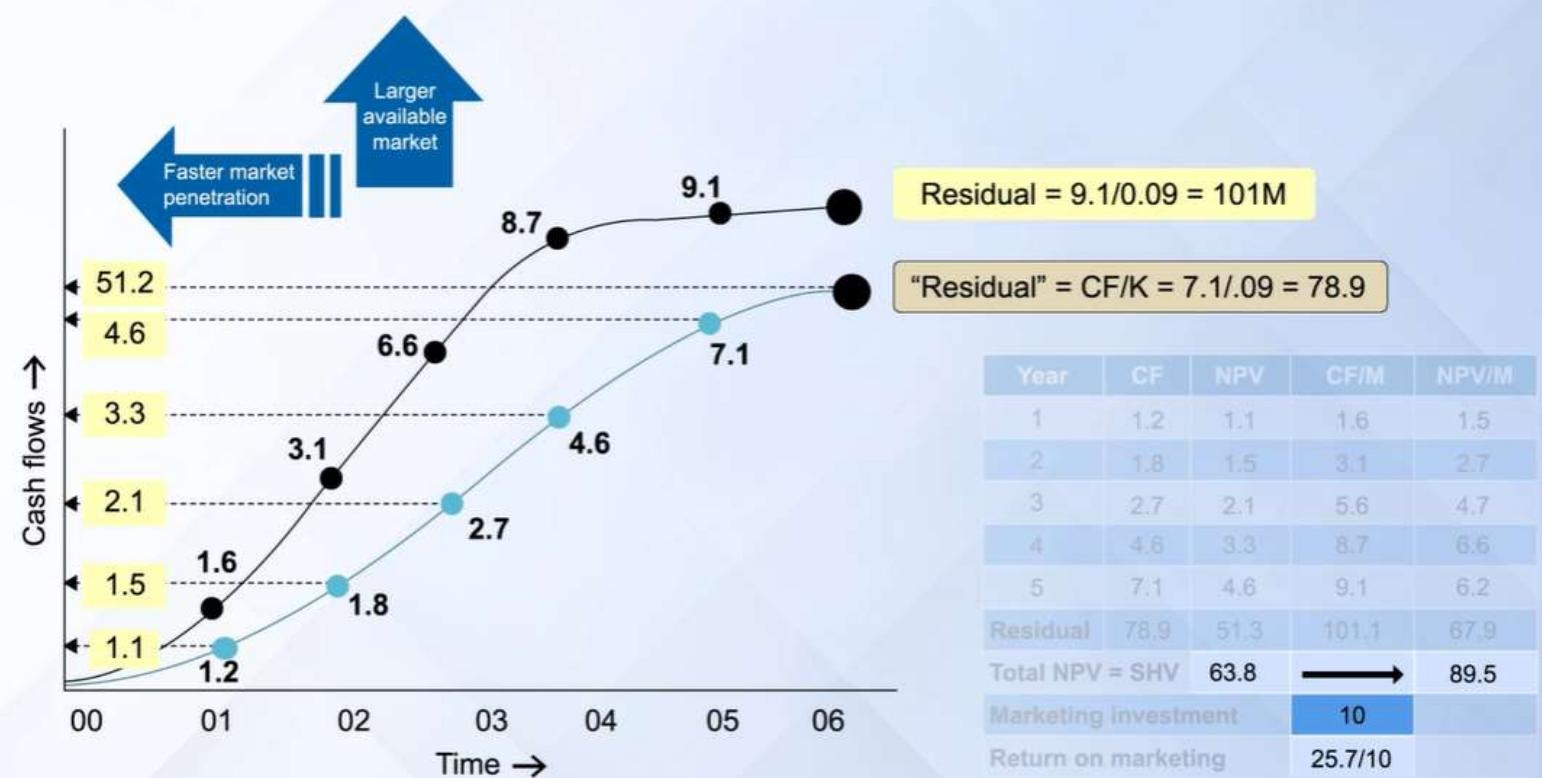
Net Present Value (NPV)



Net Present Value (NPV)



Net Present Value (NPV)



ROMI vs EVA vs NPV

- ROMI is good.
- EVA is better.
- NPV is best.

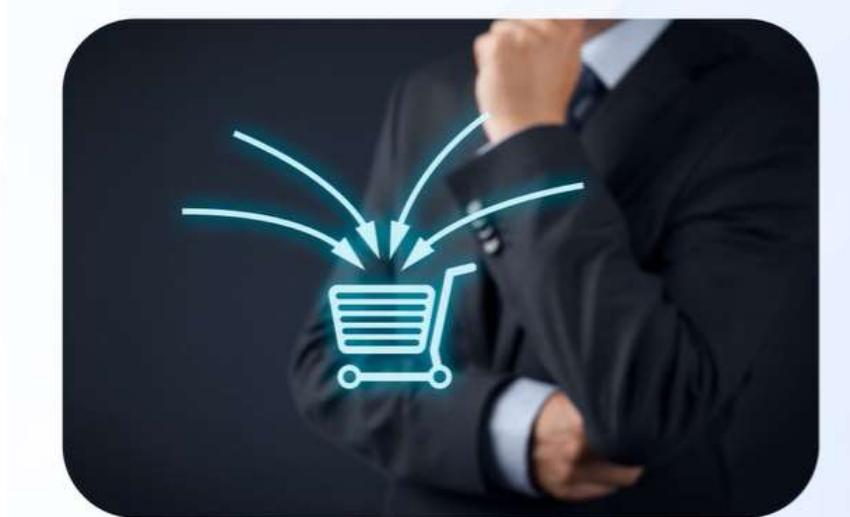


Financial Service Brands and Customer Lifetime Value

E-Trade Investment: Example



E-Trade Investment: Example



- Mutual funds
- Stocks and bonds
- E-loans
- Automotive loans
- Mortgage loans

Potential Payoff from \$400M Investment

Acquisition cost = \$400M/2.2M customers = \$200 per customer

Benefits:

- Stocks (trading) = $9 \times 16 = \$144$
- Margin account = $1200 \times 0.10 = \$120$
- Credit card = $(0.30) \times 60 = \$18$
- Term Life = $(0.05) \times 200 = \$10$
- IRA = $(0.04) \times 400 = \$16$

Benefit = \$308

Customer retention cost = \$20

Earnings per customer = \$308 - \$20 = \$288

Spending \$200 and getting \$288 is not a good deal and has uncertainty.

Customer Lifetime Value

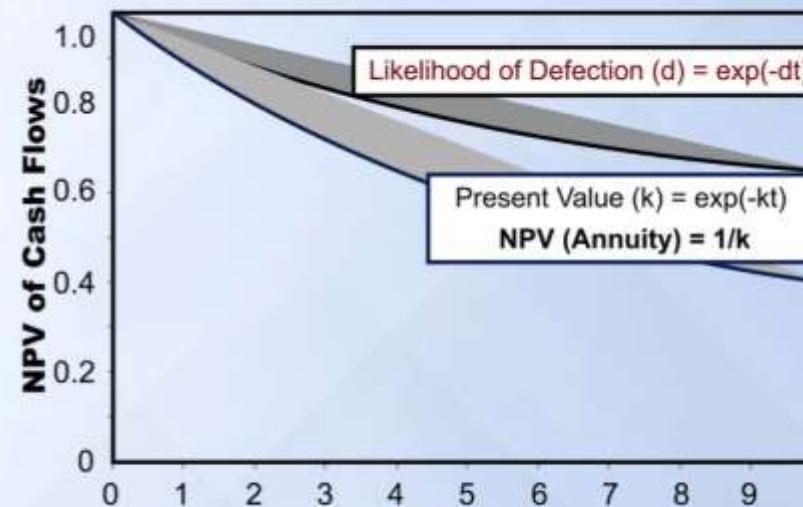


Improving Customer Retention

Customer Defection Rate (D%)

For 100 customers,

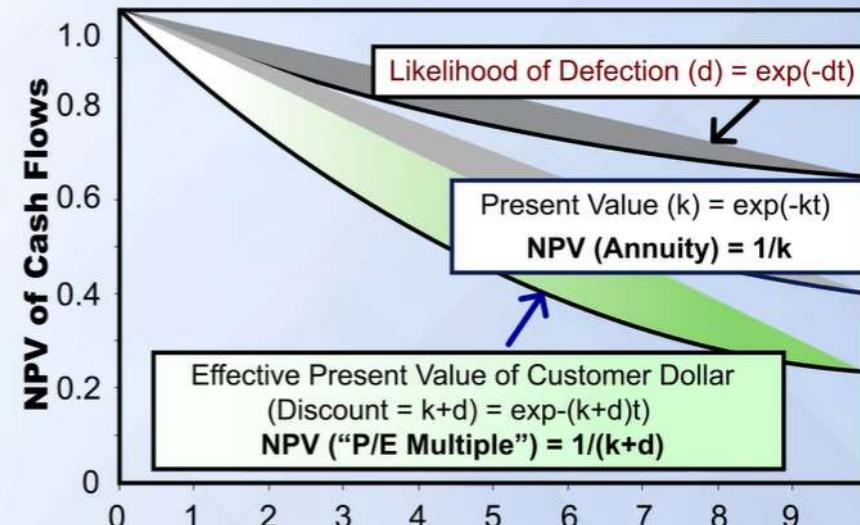
- First year: $D\% = 100 \times (1-D)$
- Second year: $D\% = 10\% \text{ of } 100 = 90$
- Third year: $D\% = 90\% \text{ of } 90 = 81$



Improving Customer Retention

If cost of money is 10 and deflection rate is 5, then

$$\text{One dollar/year} = 1/(0.1+0.05)$$



Customer Retention rate Training Chart

| Mkt Seg # | Segment Retention Rate | Segment Defection Rate | Segment P/E Multiple (K=0.10) |
|-----------|------------------------|------------------------|-------------------------------|
| 1 | 100 | 0 | $1/(.10+0.00) = 10.0$ |
| 2 | 95 | 5 | $1/(.10+.05) = 6.7$ |
| 3 | 90 | 10 | $1/(.10+.10) = 5.0$ |
| 4 | 85 | 15 | $1/(.10+.15) = 4.0$ |
| 5 | 80 | 20 | $1/(.10+.20) = 3.3$ |
| 6 | 75 | 25 | $1/(.10+.25) = 2.8$ |

Impact of Customer Retention Rate on Financial Value

| Mkt Seg # | Segment Retention Rate | Segment Defection Rate | Segment P/E Multiple (K=0.10) |
|-----------|------------------------|------------------------|-------------------------------|
| 1 | 100 | 0 | $1/(.10+.00) = 10.0$ |
| 2 | 95 | 5 | $1/(.10+.05) = 6.7$ |
| 3 | 90 | 10 | $1/(.10+.10) = 5.0$ |

$6.7 = \text{Increase of } 1.7/5 = 34\% \text{ increase in value}$

Impact of Customer Retention Rate on Financial Value

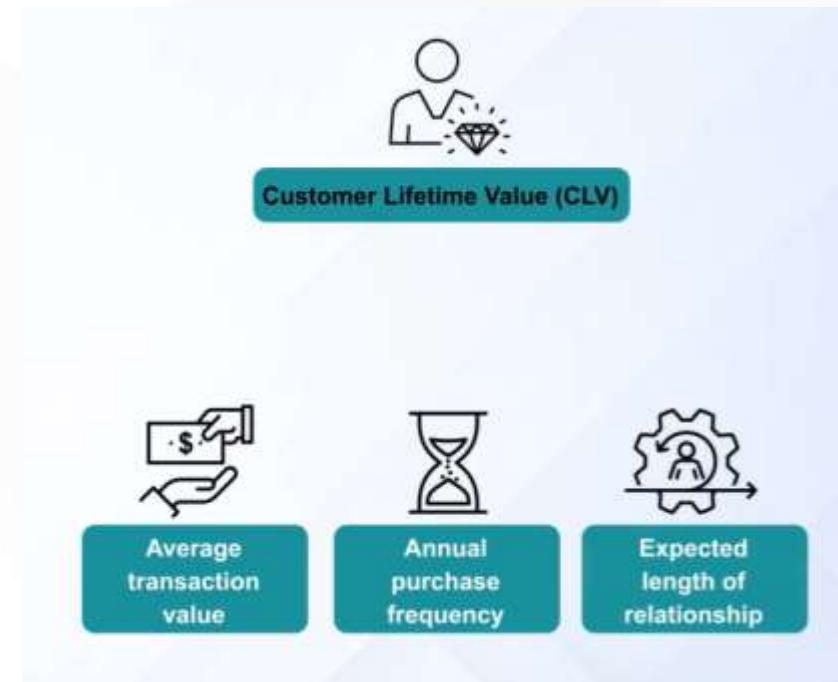
Quick way to estimate impact of retention rate

| Mkt Seg # | Segment Retention Rate | Segment Defection Rate | Segment P/E Multiple (K=0.10) |
|-----------|------------------------|------------------------|-------------------------------|
| 1 | 100 | 0 | $1/(.10+.00) = 10.0$ |
| 2 | 95 | 5 | $1/(.10+.05) = 6.7$ |
| 3 | 90 | 10 | $1/(.10+.10) = 5.0$ |

Short-term impact – 1%

Long-term impact – 34%

CLV Calculation

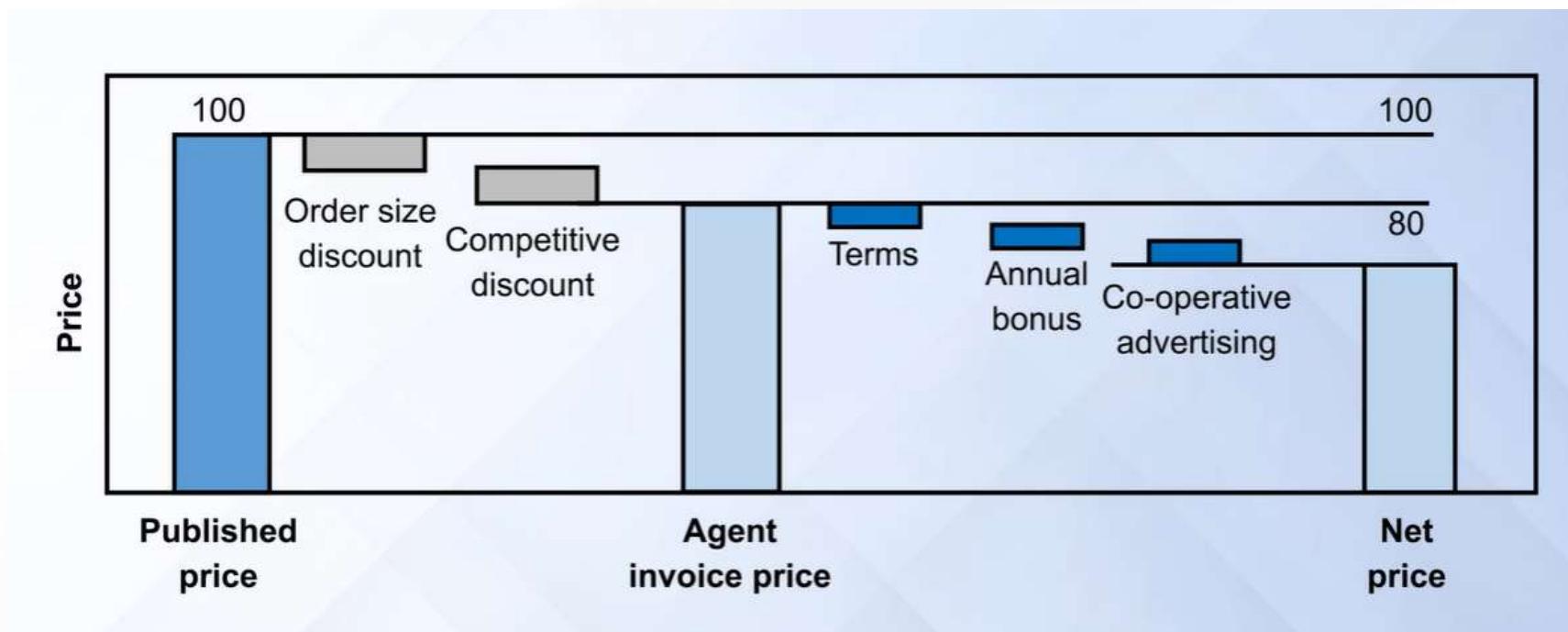


Estimate Value of YONO Customers



Managing Strategic Customers and Distributors, Competition, Solutions and Bundling

Managing Prices and Discounts with B2B Buyers

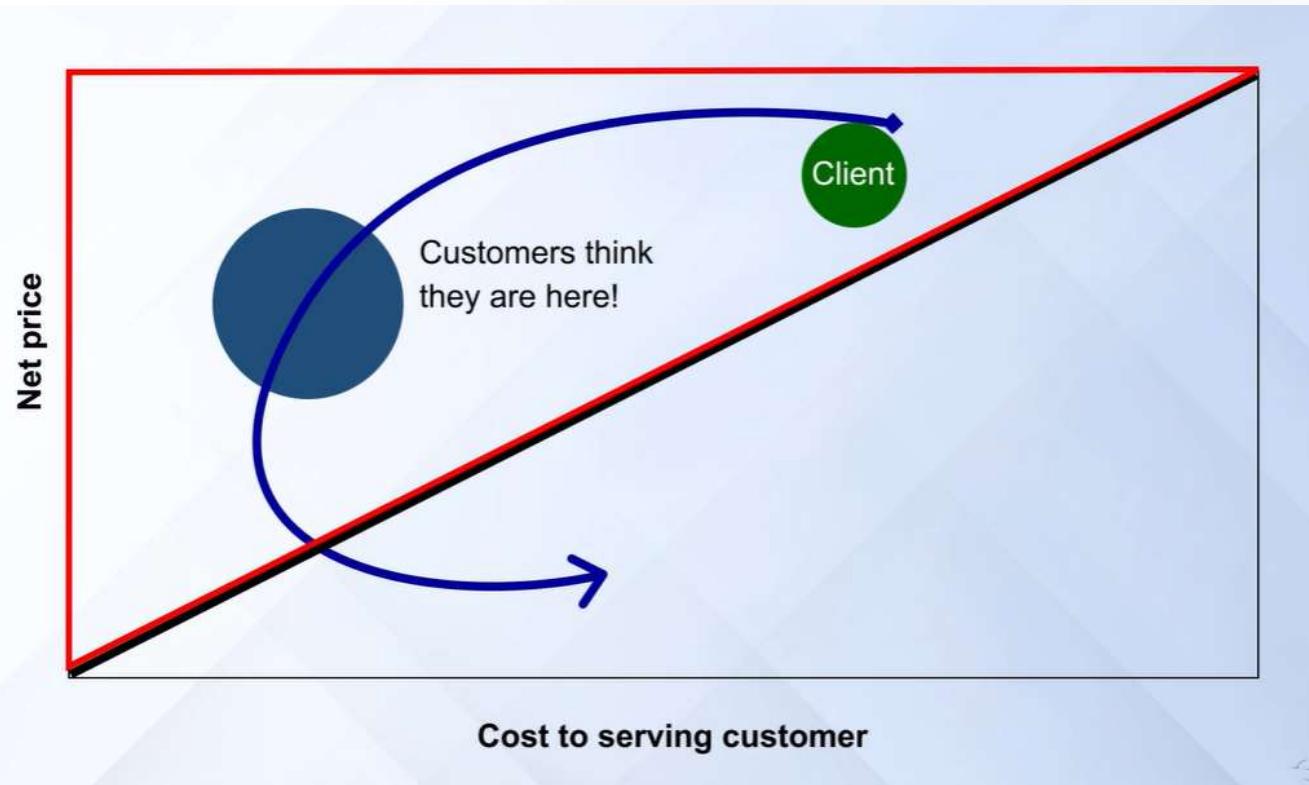


Managing Prices and Discounts with B2B Buyers

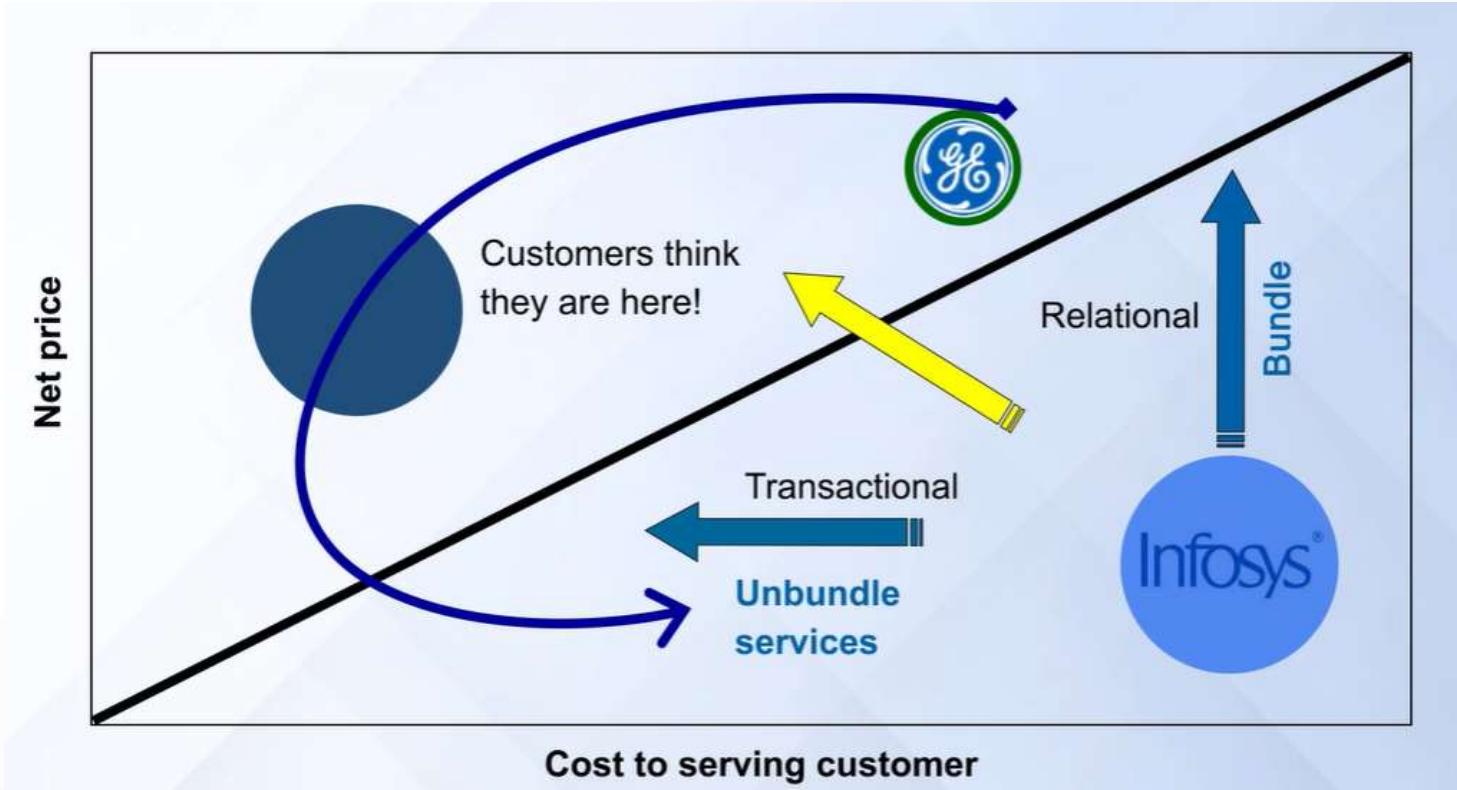


- Do discounts/prices vary across key accounts?
- How to manage discounts/prices?
- What are the ways to manage buyers?

Managing Customer Negotiations



Managing Customer Negotiations

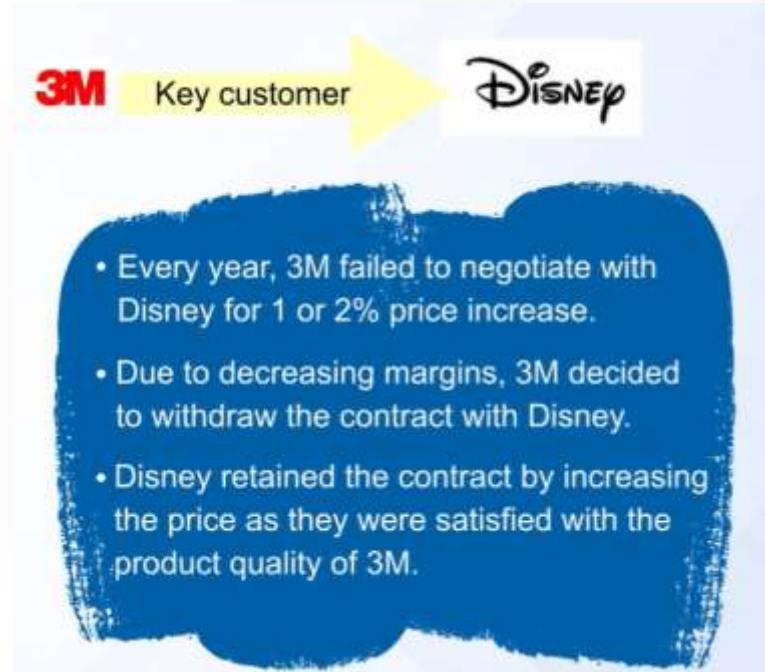


Managing Customer Negotiations



- In order to renegotiate or walk away from a contract, you need information or other options
- Take a stand to manage your negotiation

Managing Customer Negotiations: Example



Reducing Demand Volatility and Vulnerability Through Customer Management



Good customer management reflects in the volatility and vulnerability of cash flows.

Reducing Demand Volatility and Vulnerability Through Customer Management

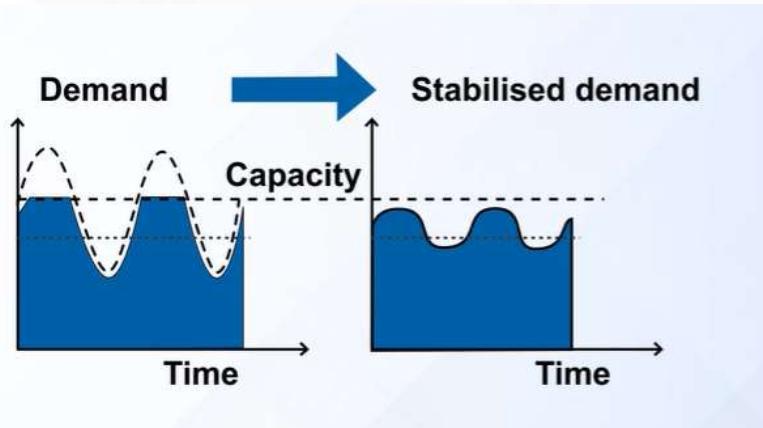


- Companies that buy products in bulk regularly.
- During a downturn in the market, the manufacturers turn to transactional customers, distributors.

Reducing Demand Volatility and Vulnerability Through Customer Management



Reducing Demand Volatility and Vulnerability Through Customer Management



Value of Customer Solutions: Example



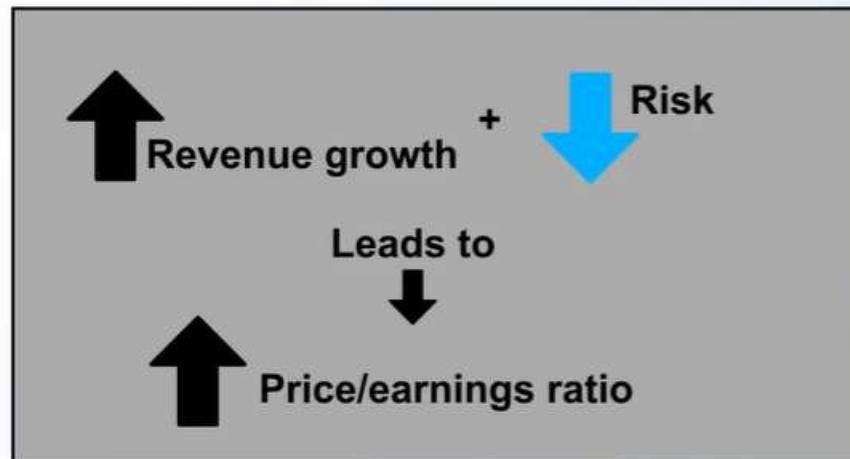
Value of Customer Solutions



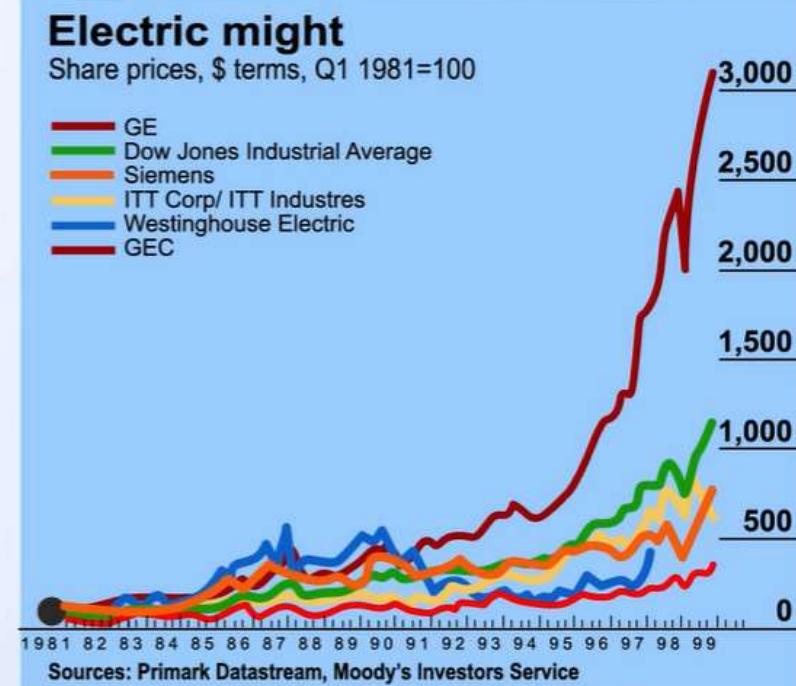
- Service capacity utilisation
- Technology-based preventive maintenance
- Take advantage of synergies
- Shift to service and consumables
- Enhance loyalty and switching cost, example leasing

Value of Customer Solutions

- Stabilised cash flow
- Higher-quality earnings

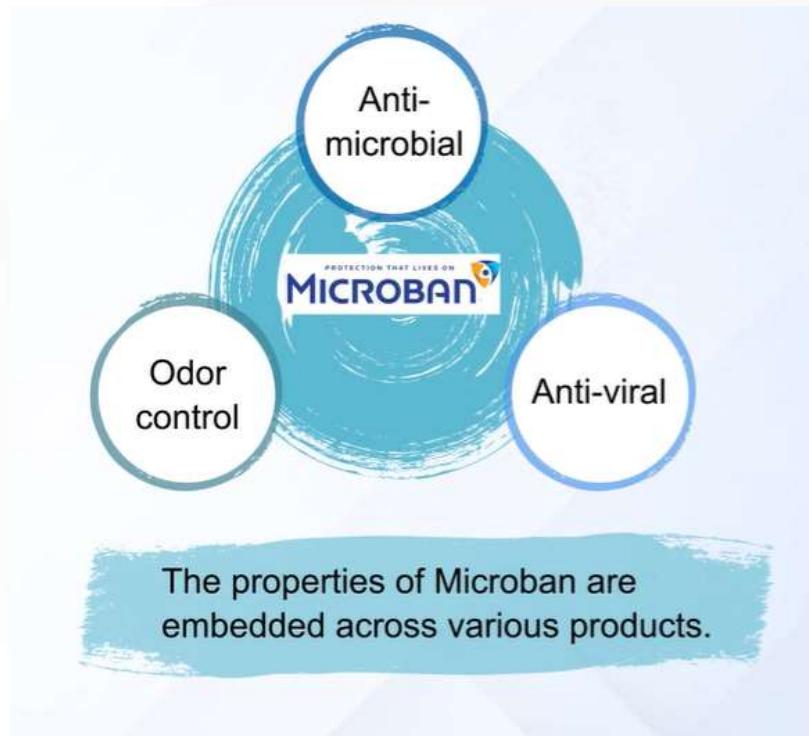


The House That Jack Built



Negotiating on Value Created

Microban



Microban's Customers

Microban helped industry-leading companies improve and differentiate their products.



Microban has 400 customers and 400 brand partners.

Example: Value Proposition



Partnered with only one company and in one category

Co-developed properties:

Bacteria management <-> Refrigerator building

Created intellectual property, a joint patent

Laid marketing plan

Conducted segmentation analysis

Worked as a business partner, not as a supplier

Turn Key Solution: Strategic Alignment

Improve product quality

Microban® antimicrobial protection helps prevent the growth of damaging microbes.

Differentiate product

Creates value and, coupled with exclusivity, can create long-term differentiation.

Marketing strategy

An alternative strategy helps the company to achieve its business goals and provides the greatest value.

Turn key Solution: Market Analysis



Proposition: Share the risks and also the profits.

DAP Case Study



Launch of DAP® Kwik Seal Plus™ caulk with Microban boosted distribution and revenues and justified a substantial premium price.

Store sales increased by 17%

Emerson Case Study



Profitability of RIDGID wet/dry vac filters increased substantially as Emerson shifted sales to their premium products with the Microban point-of-difference.

Sales for premium product increased by 10%-30%

Example: Negotiating by Emerson

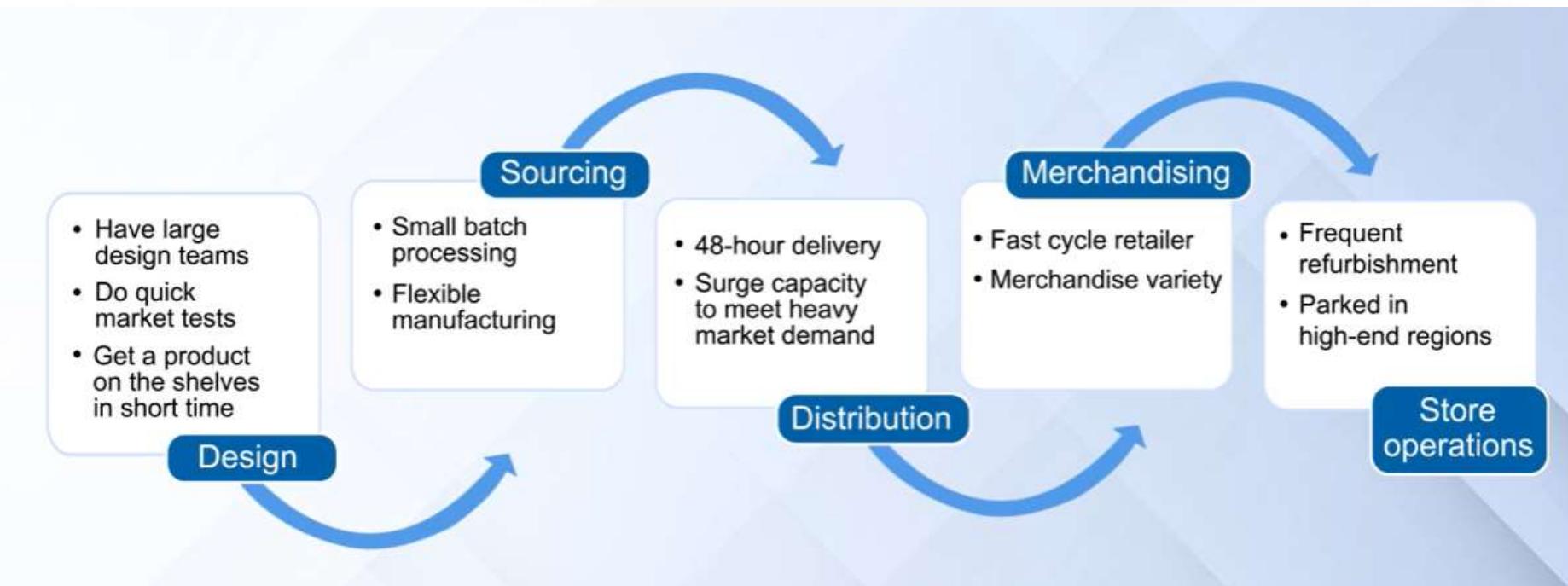


Emerson used information to negotiate.

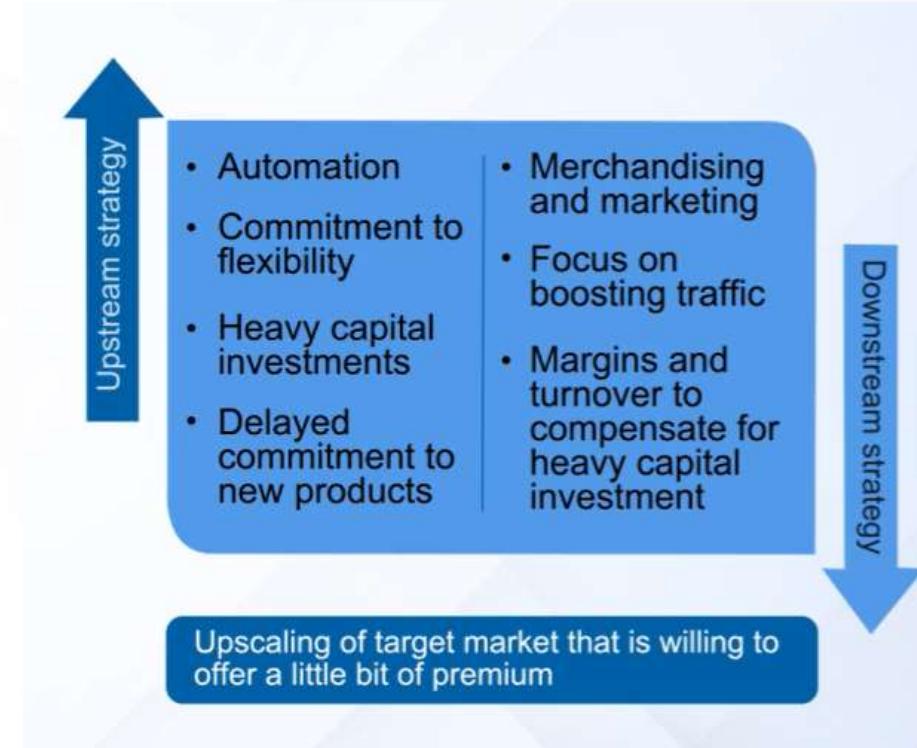
Option: If the potential client is not interested, go to the competitor.

Zara: Fast Fashion

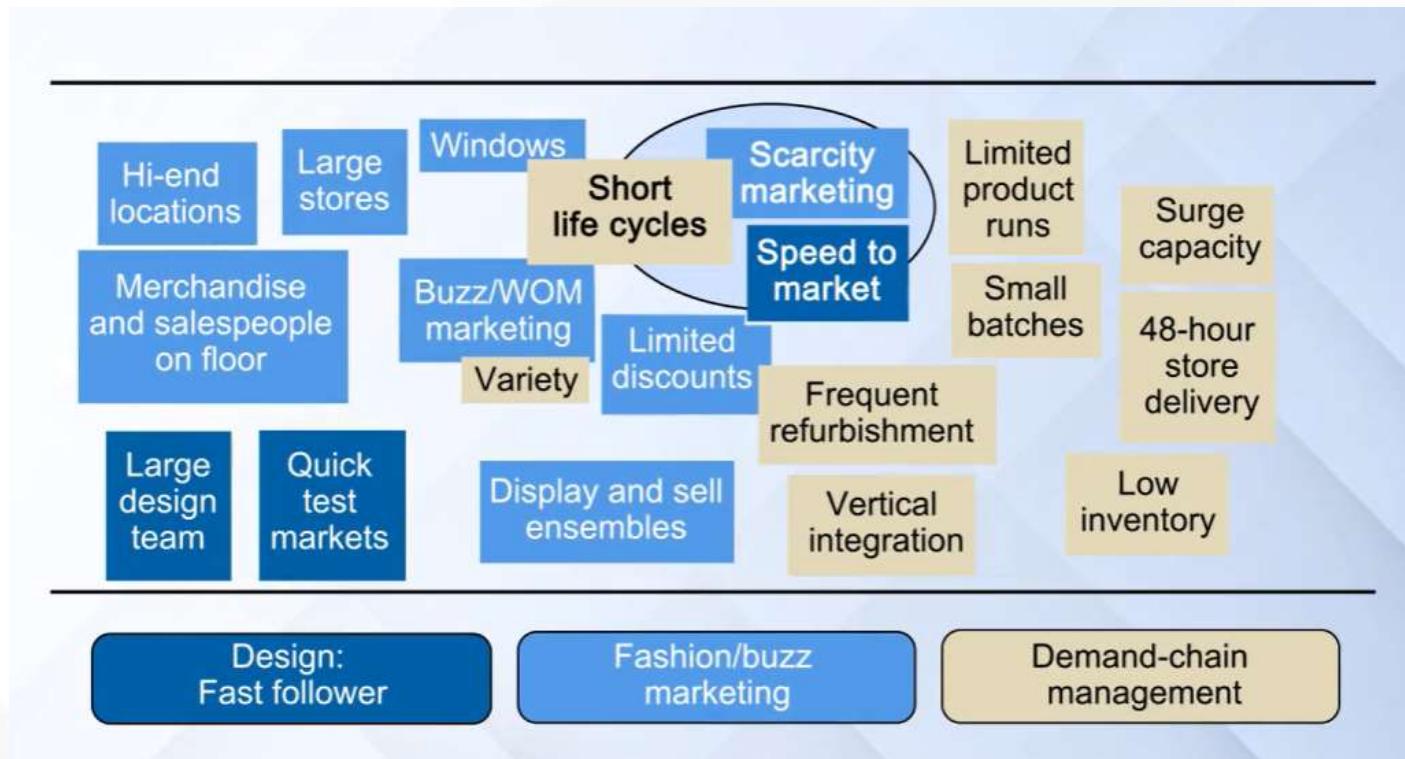
Zara: Value Chain Elements



Upstream and Downstream Strategy



Value Creation via Progress Integration

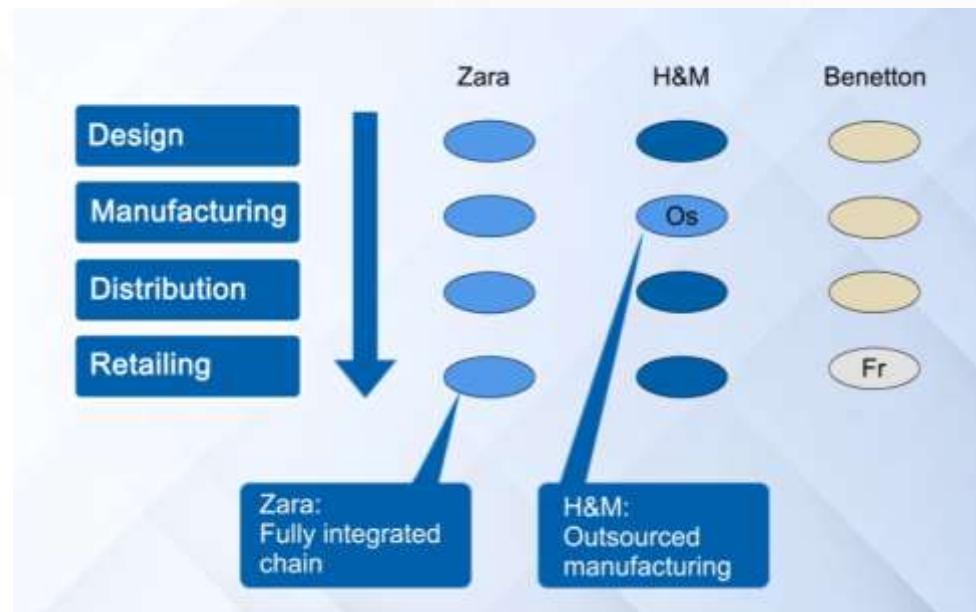


Scarcity Marketing



- Do not overload shelves
- Train the customers to buy now rather than waiting for a discount

Demand-Chain Structure



Benefits of Zara



- Lower inventory because of flexible manufacturing
- More variety because of large number of fashion cycle
- Lower risk because of minimal inventory

Zara's Accounting Metrics

| All numbers in percentage | Zara (Inditex) | H&M |
|---------------------------|----------------|------|
| Net discounts/markdowns | 2.7 | 10.5 |
| Gross margin | 46 | 41.5 |
| Operating margin | 21.7 | 13.8 |
| Net margin (ROS) | 10.5 | 9.6 |
| Sales/assets (turnover) | 1.25 | 1.96 |
| Return on assets | 13.1 | 18.8 |
| Financial leverage | 1.75 | 1.32 |
| Return on equity | 22.9 | 24.8 |

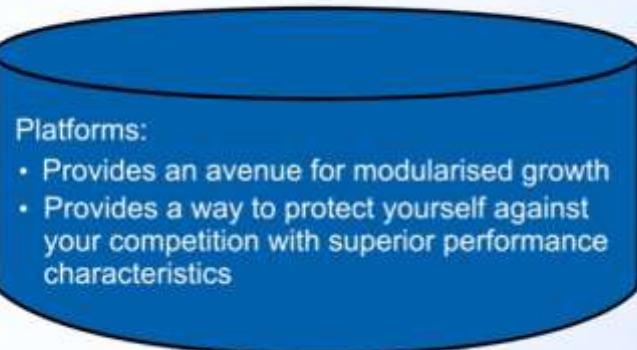
Market value growth → Zara = 47% compared to H&M = 8%

Zara's Sustainable Growth

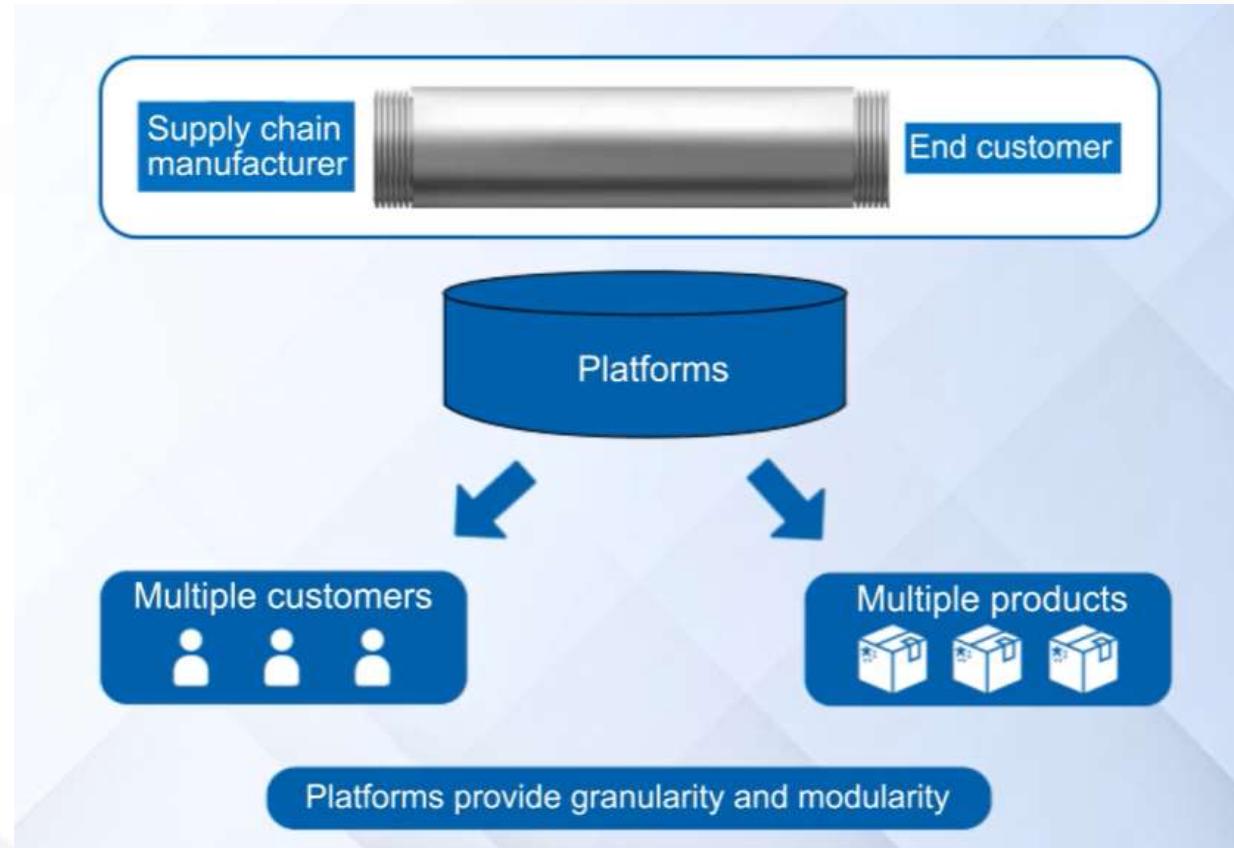


Managing Growth and Resilience of Platforms as Options

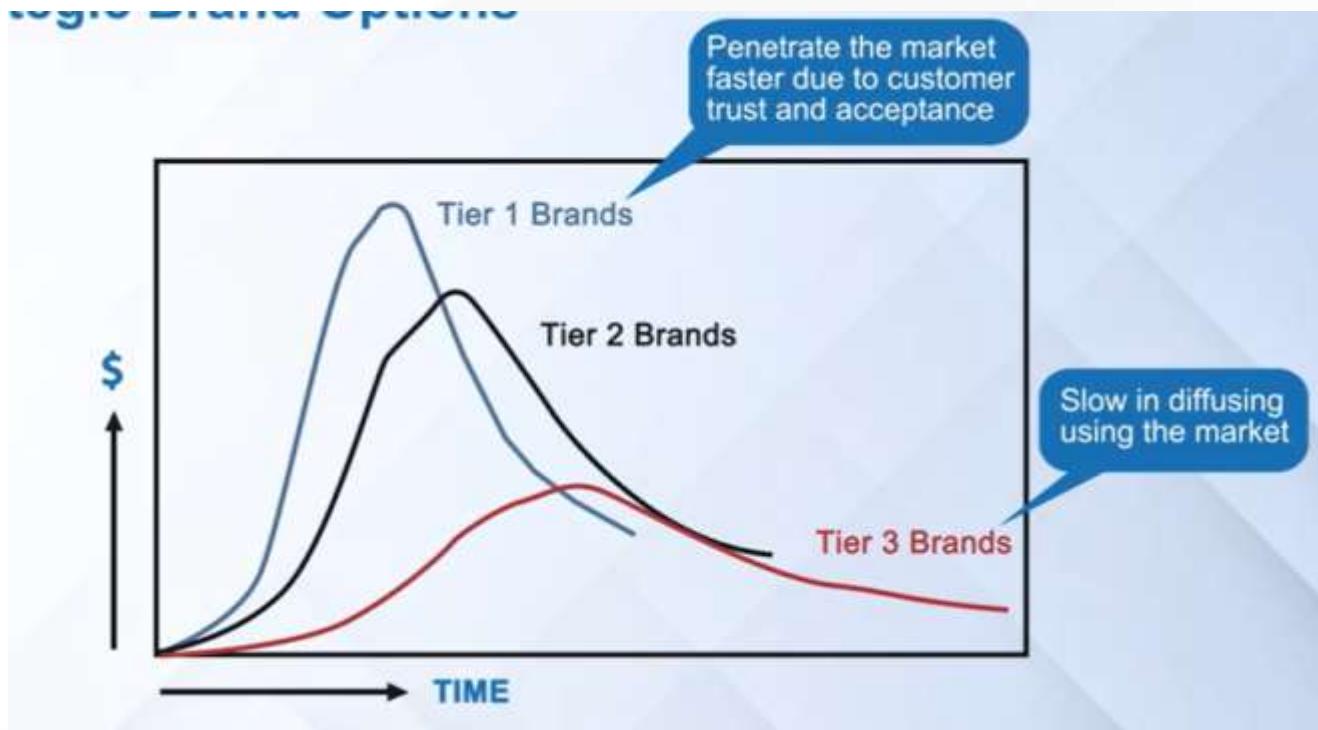
Platforms



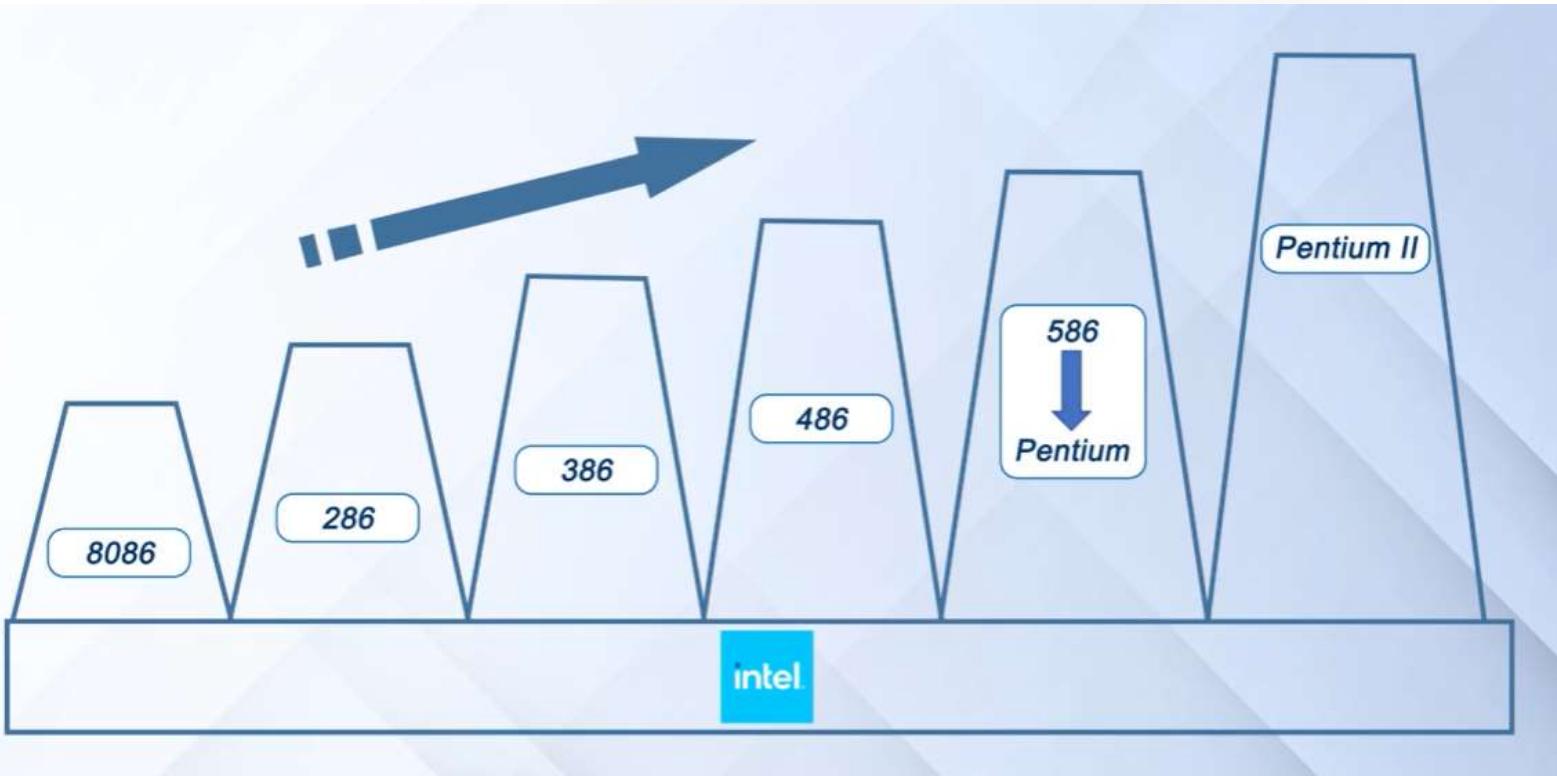
Pipe and Platform Structures



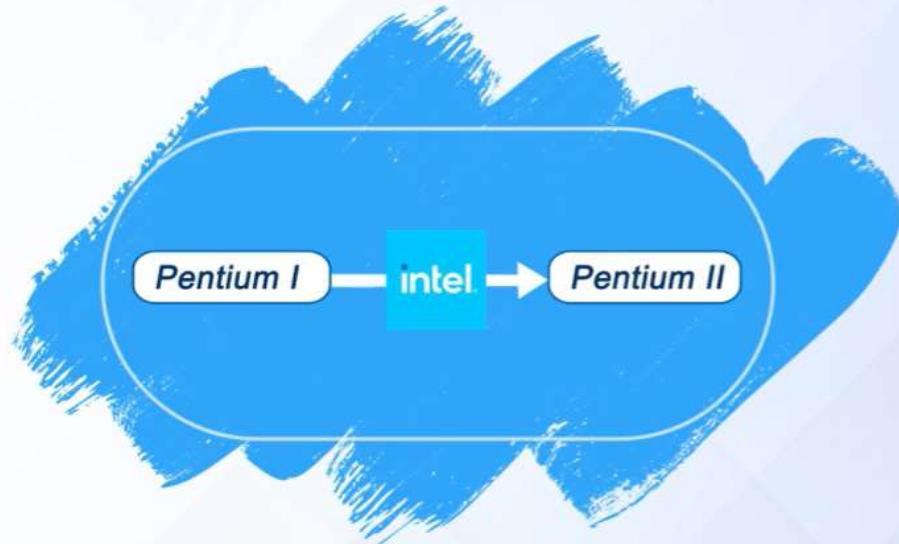
Strategic Brand Options



Product-Centric Brand Platforms: Intel



Benefits of Product Platforms

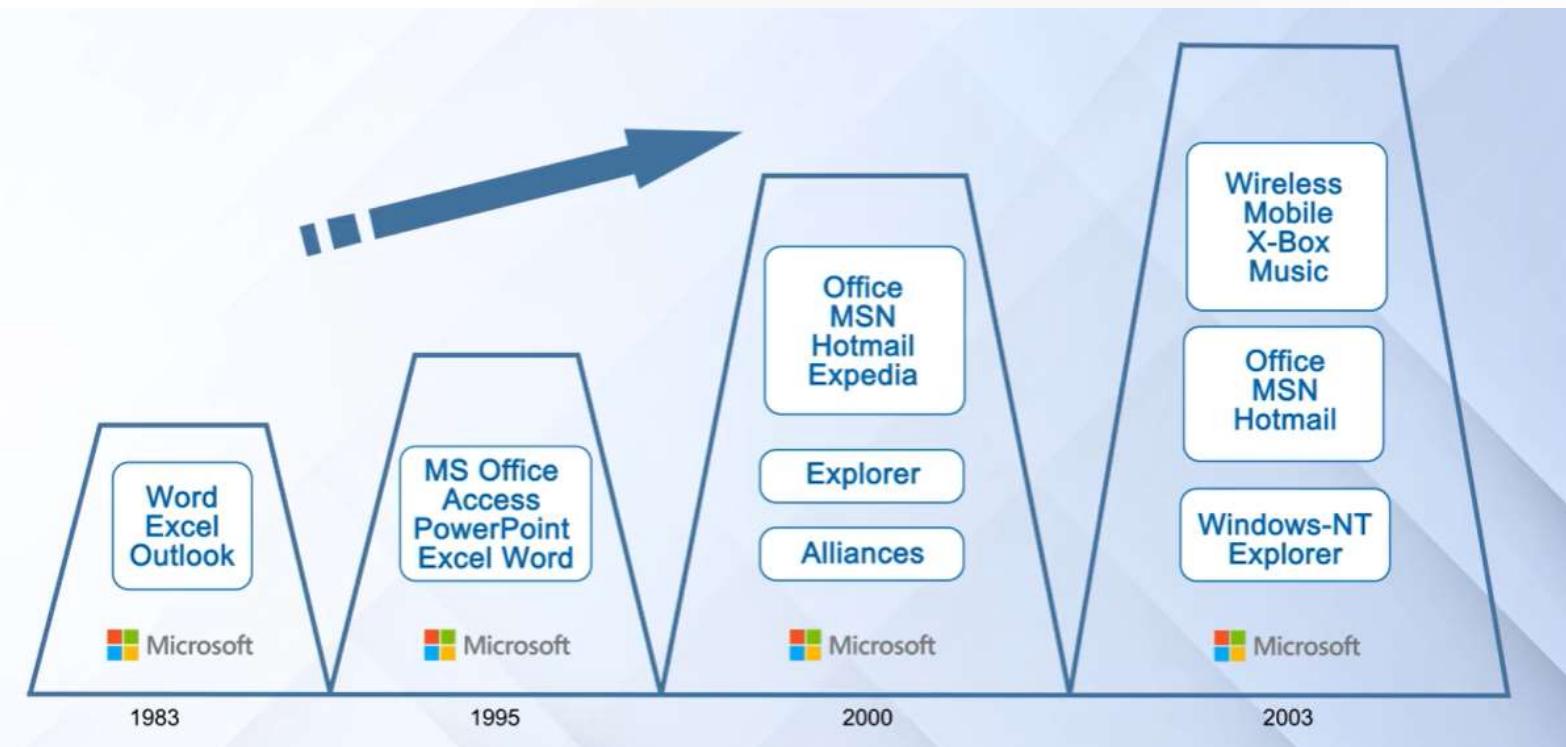


- Reuse technology
- Differentiation
- Reduce costs with modular designs
- Speed—time-to-market
- E-business/cost controls
- Brand and value networks

Benefits of Product-Centric Brand Platforms

| Concept | Product Platform |
|------------------|---|
| Cost containment | <ul style="list-style-type: none">• Reuse technology• Experience• Modular design• Shared inventory |
| Growth prospects | <ul style="list-style-type: none">• Scalability• Supply-side synergies |
| Velocity | <ul style="list-style-type: none">• Time-to-market• Time-to-volume |
| Sustainability | <ul style="list-style-type: none">• Differentiation• Total cost of ownership (TCO) |
| Investment | <ul style="list-style-type: none">• Tangible (product)• Intangible (process) knowhow |

Customer-Centric Brand Platforms



Customer-Centric Brand Platforms: Microsoft Business Model



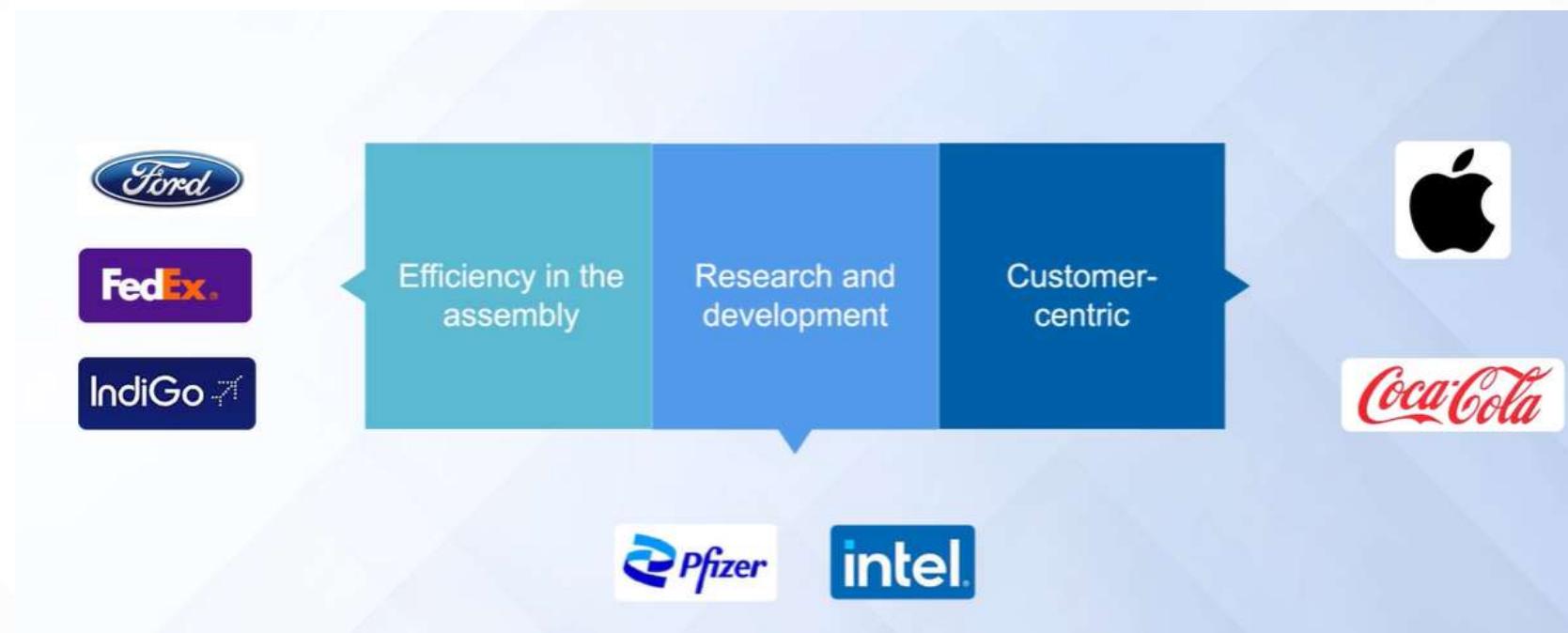
- Grow customer base
- Register, x-sell and up-sell
- Services and subscriptions
- E-marketing and upgrades
- Adjacent market strategies

Product- vs Customer-Centric Brand Platforms

| Concept | Product Platform | Customer Platform |
|------------------|---|---|
| Cost containment | <ul style="list-style-type: none">• Reuse technology• Experience• Modular design• Shared inventory | <ul style="list-style-type: none">• Shared sales, service and support; solution bundling |
| Growth prospects | <ul style="list-style-type: none">• Scalability• Supply-side synergies | <ul style="list-style-type: none">• X-Sell, up-sell, demand-synergy |
| Velocity | <ul style="list-style-type: none">• Time-to-market• Time-to-volume | <ul style="list-style-type: none">• Time-to-market penetration |
| Sustainability | <ul style="list-style-type: none">• Differentiation• TCO | <ul style="list-style-type: none">• Switching cost• Loyalty |
| Investment | <ul style="list-style-type: none">• Tangible (product)• Intangible (process) knowhow | <ul style="list-style-type: none">• Intangible (brand equity) and tangible (distribution NWs) |

Integrating Value Appropriation and Value Creation in Business Innovation

Value Creation via Market-facing Business Processes



Value Creation via Market-Facing Business Processes



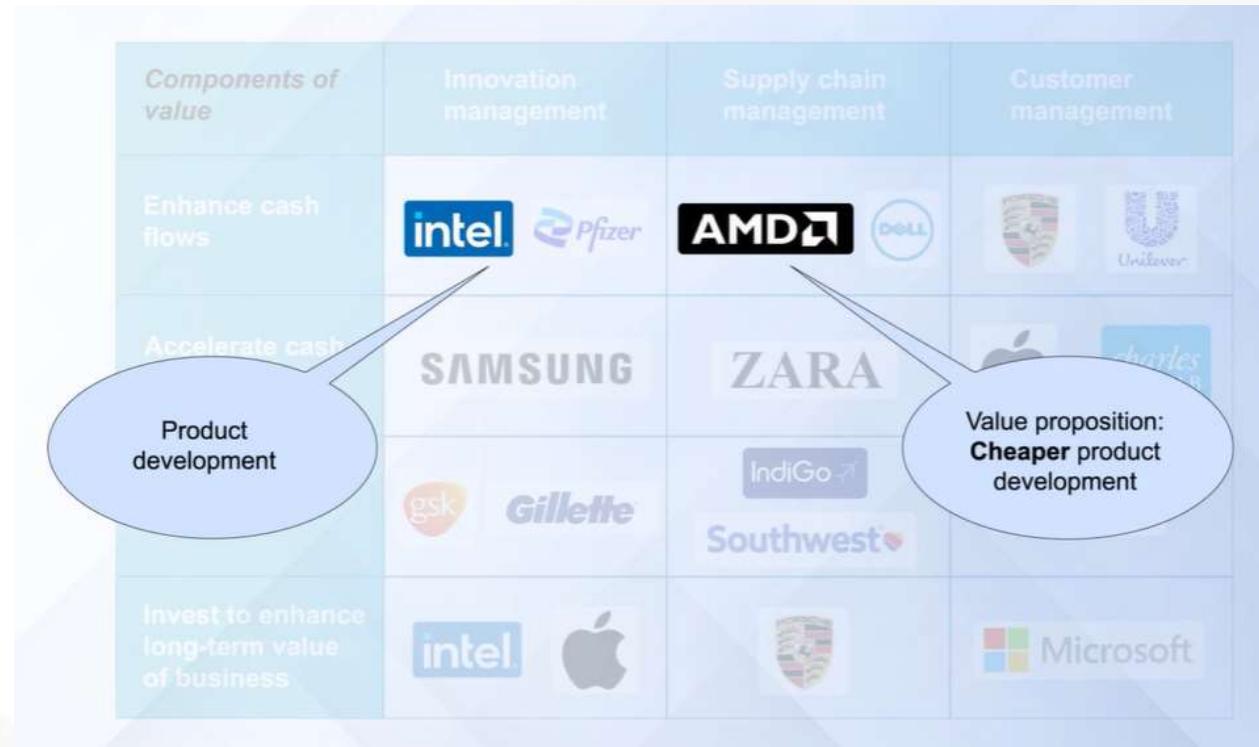
4 Drivers of Shareholders Value

- 1 Make more money
- 2 Make money faster
- 3 Make sure the money doesn't go away
- 4 Determine the investments that must be made

Aligning Customer and Shareholder Value

| Components of value | Innovation management | Supply chain management | Customer management |
|---|--|--|---|
| Enhance cash flows |   |   |   |
| Accelerate cash flows |  |  |   |
| Accelerate cash flows |   |   |  |
| Invest to enhance long-term value of business |   |  |  |

Aligning Customer and Shareholder Value

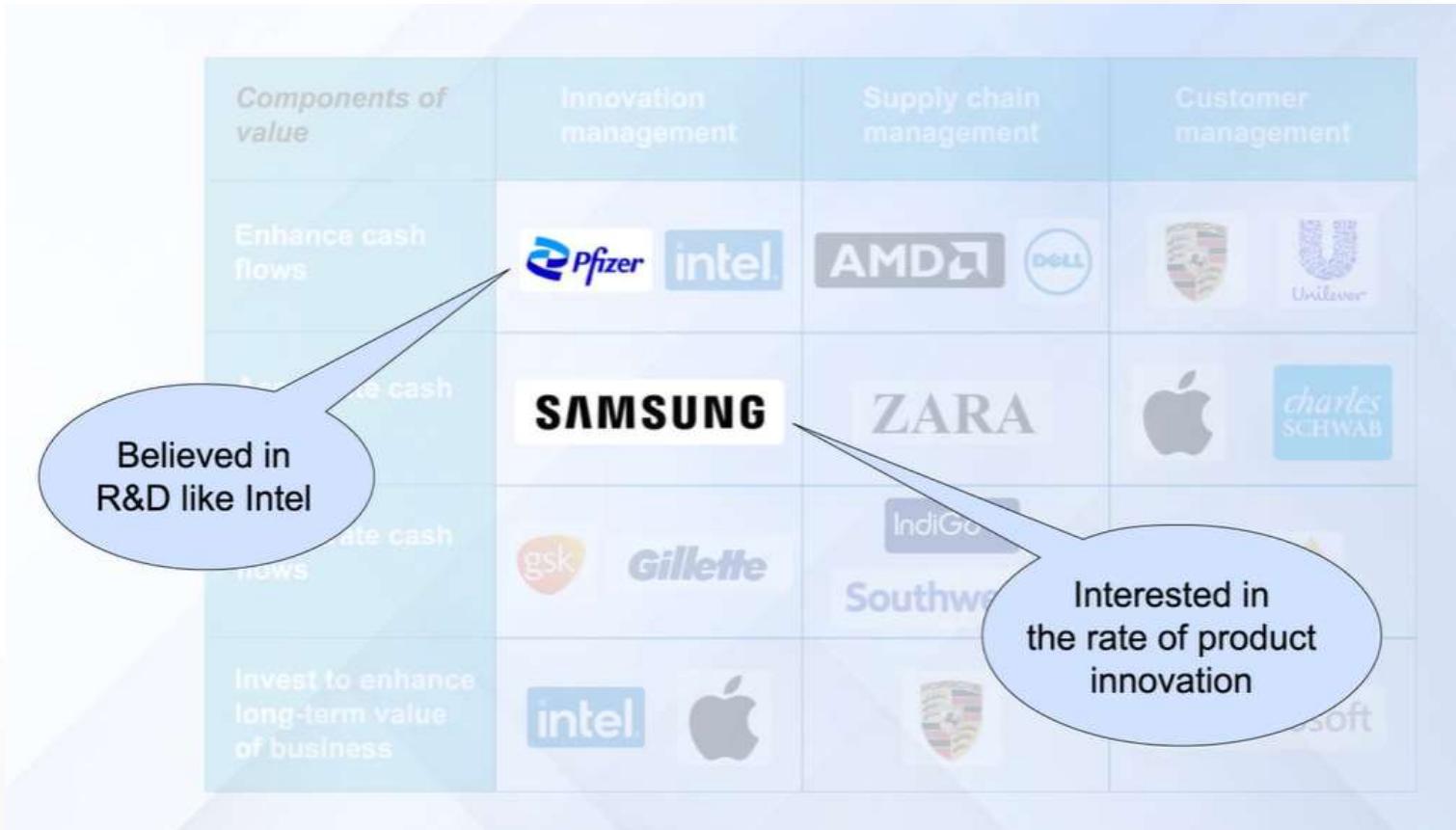


Aligning Customer and Shareholder Value



- | | |
|---|---|
| <ul style="list-style-type: none">• Has product differentiation• Has heavy R&D | <ul style="list-style-type: none">• Is similar to Dell• Product development can be done cost effectively |
|---|---|

Aligning Customer and Shareholder Value



Aligning Customer and Shareholder Value

| Components of value | Innovation management | Supply chain management |
|---|-----------------------|---------------------------|
| Enhance cash flows | Pfizer intel | AMAZON ZARA SCHWAB |
| Accelerate cash flows | SAMSUNG | IndiGo SINGAPORE AIRLINES |
| Accelerate cash flows | gsk Gillette | Southwest |
| Invest to enhance long-term value of business | intel Apple | Porsche Microsoft |

- Emphasised need to keep innovating to stay protected in the marketplace
- Focused on out-inventing others and staying safe
- Didn't share their information with everybody

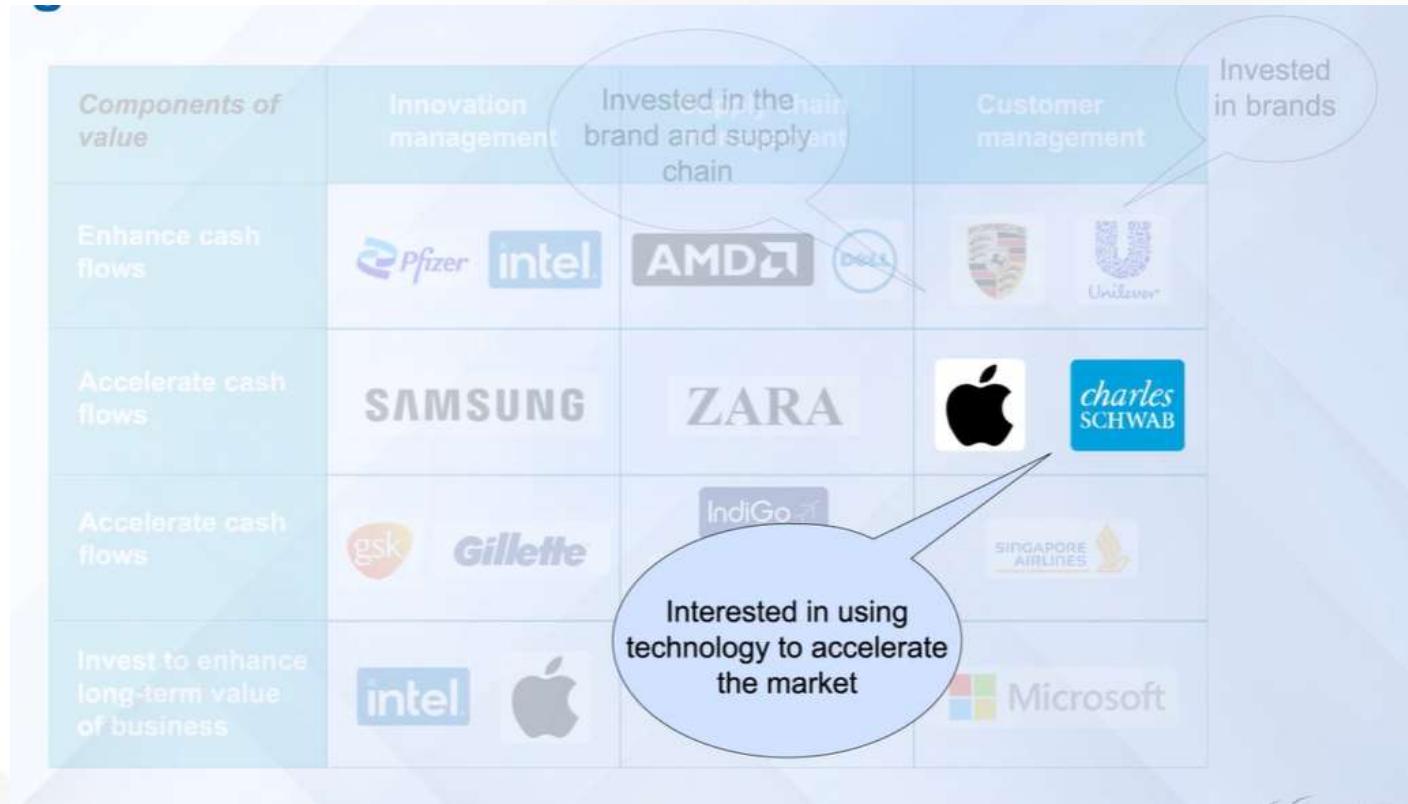
Aligning Customer and Shareholder Value

| Components of value | Innovation management | Supply chain management | Customer management | |
|---|-----------------------|-------------------------|-------------------------|---|
| Enhance cash flows | Pfizer intel | AMD DELL | Porsche Unilever |  Invested in brands |
| Accelerate cash flows | SAMSUNG | ZARA | Apple charles SCHWAB | |
| Accelerate cash flows | gsk Gillette | IndiGo Southwest | SINGAPORE AIRLINES | |
| Invest to enhance long-term value of business | intel Apple | Porsche | Microsoft | |

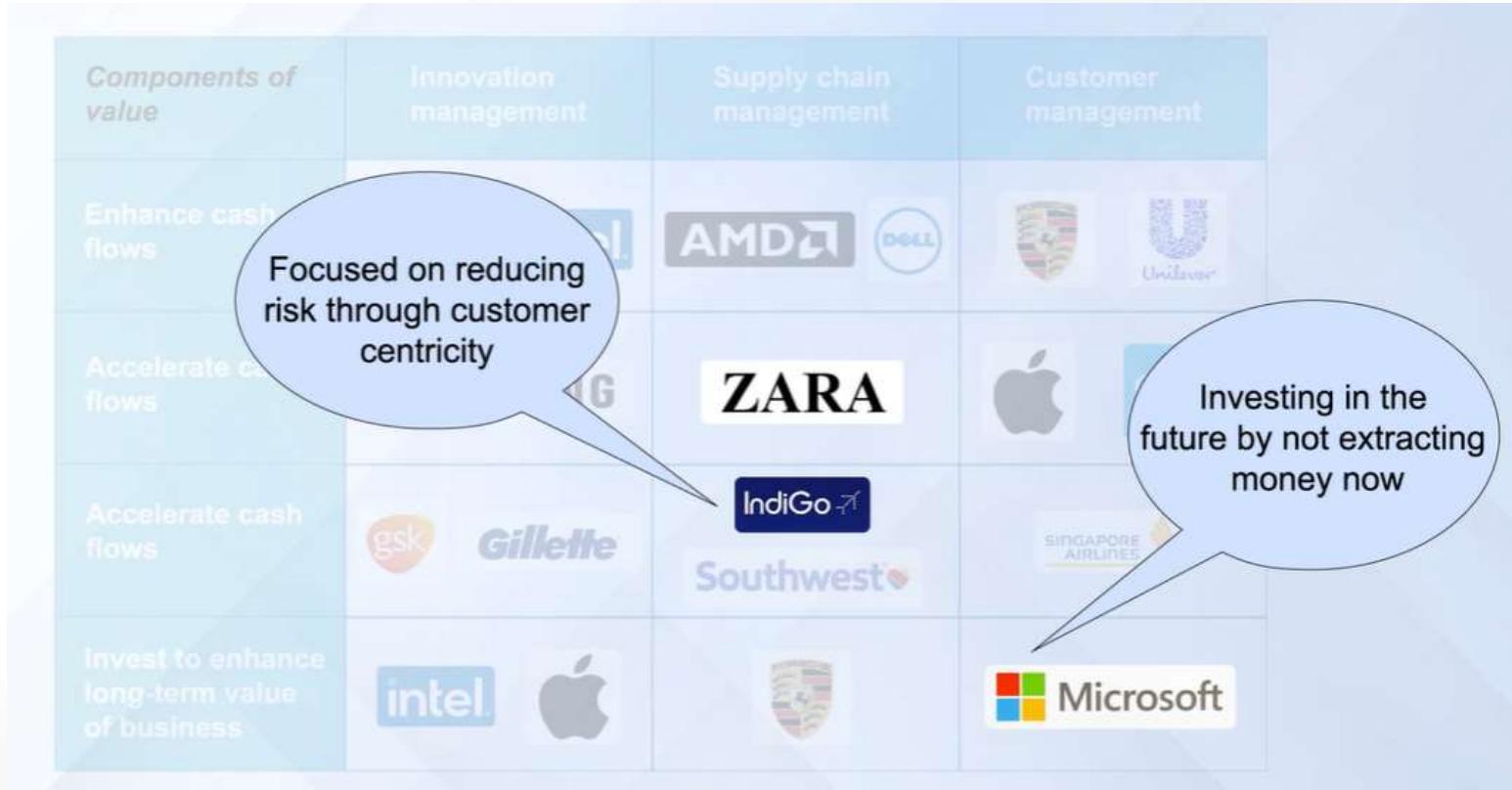
Aligning Customer and Shareholder Value



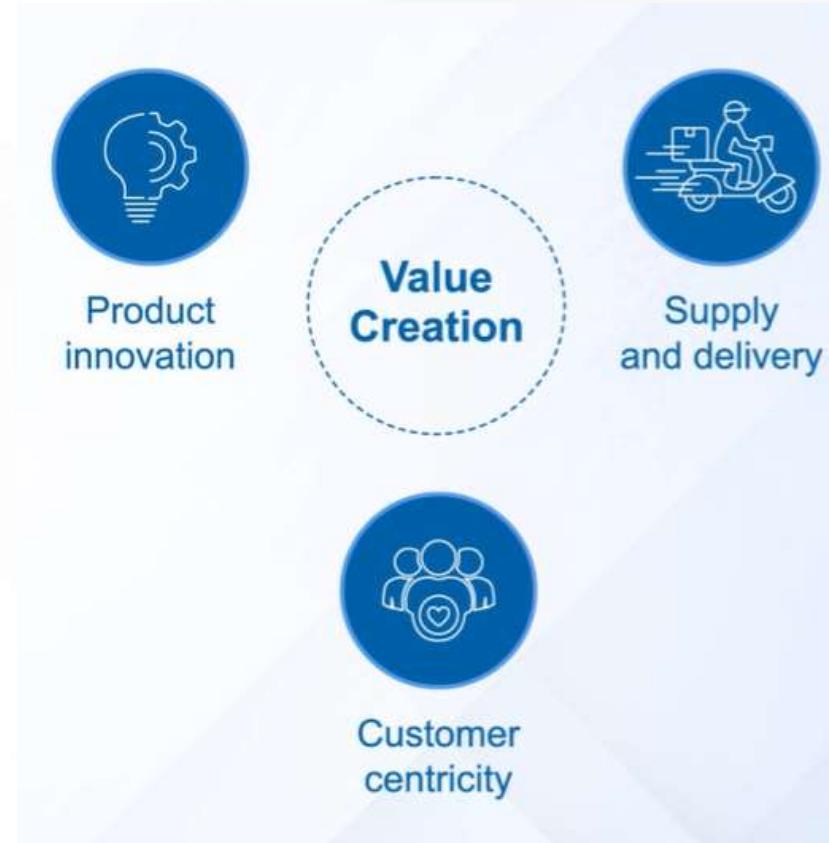
Aligning Customer and Shareholder Value



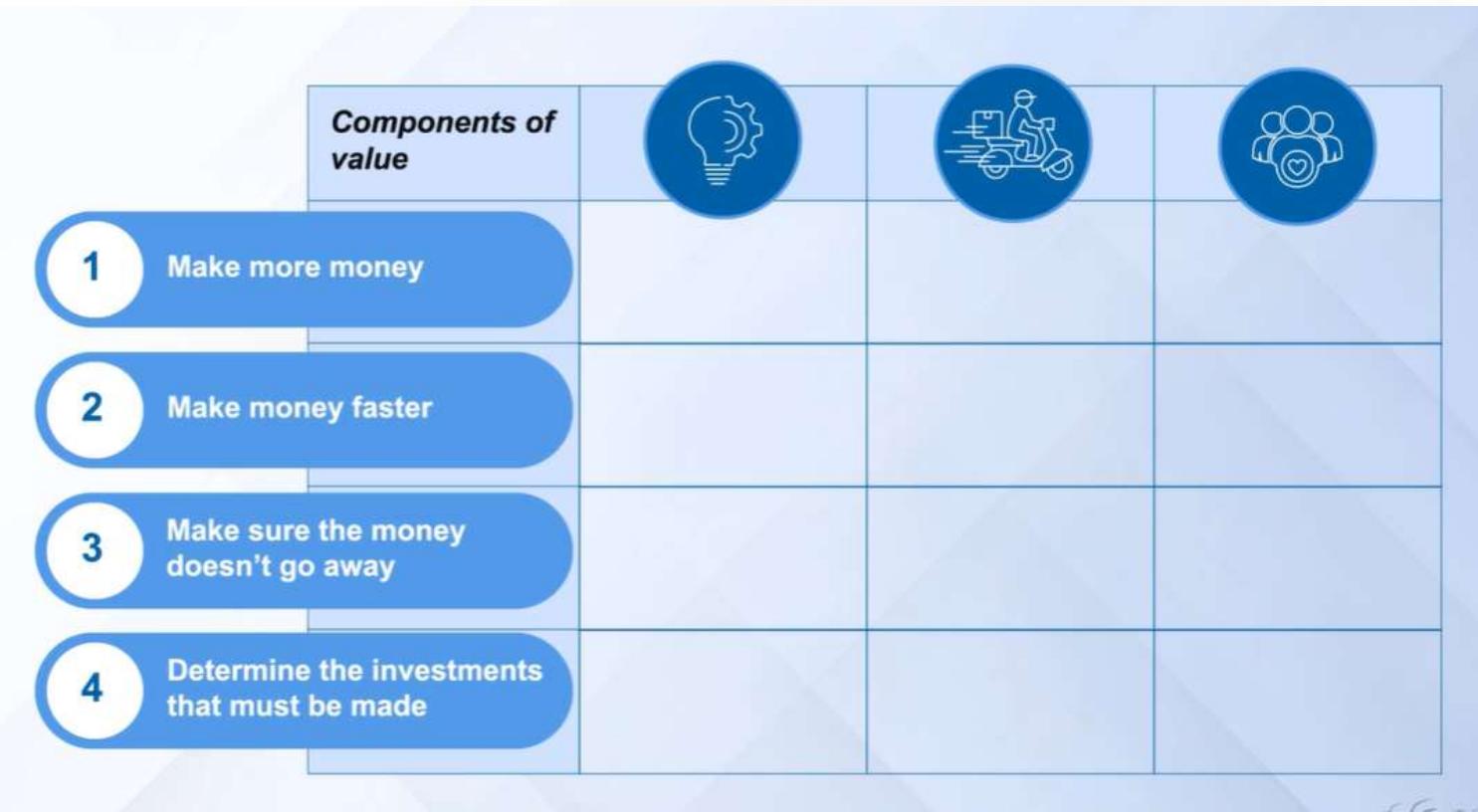
Aligning Customer and Shareholder Value



Aligning Customer and Shareholder Value



Aligning Customer and Shareholder Value



Aligning Customer and Shareholder Value

| Components of value | Value creation | | |
|---|-----------------------|-------------------------|---------------------|
| | Innovation management | Supply chain management | Customer management |
| Enhance cash flows | | | |
| Accelerate cash flows | | | |
| Accelerate cash flows | | | |
| Invest to enhance long-term value of business | | | |

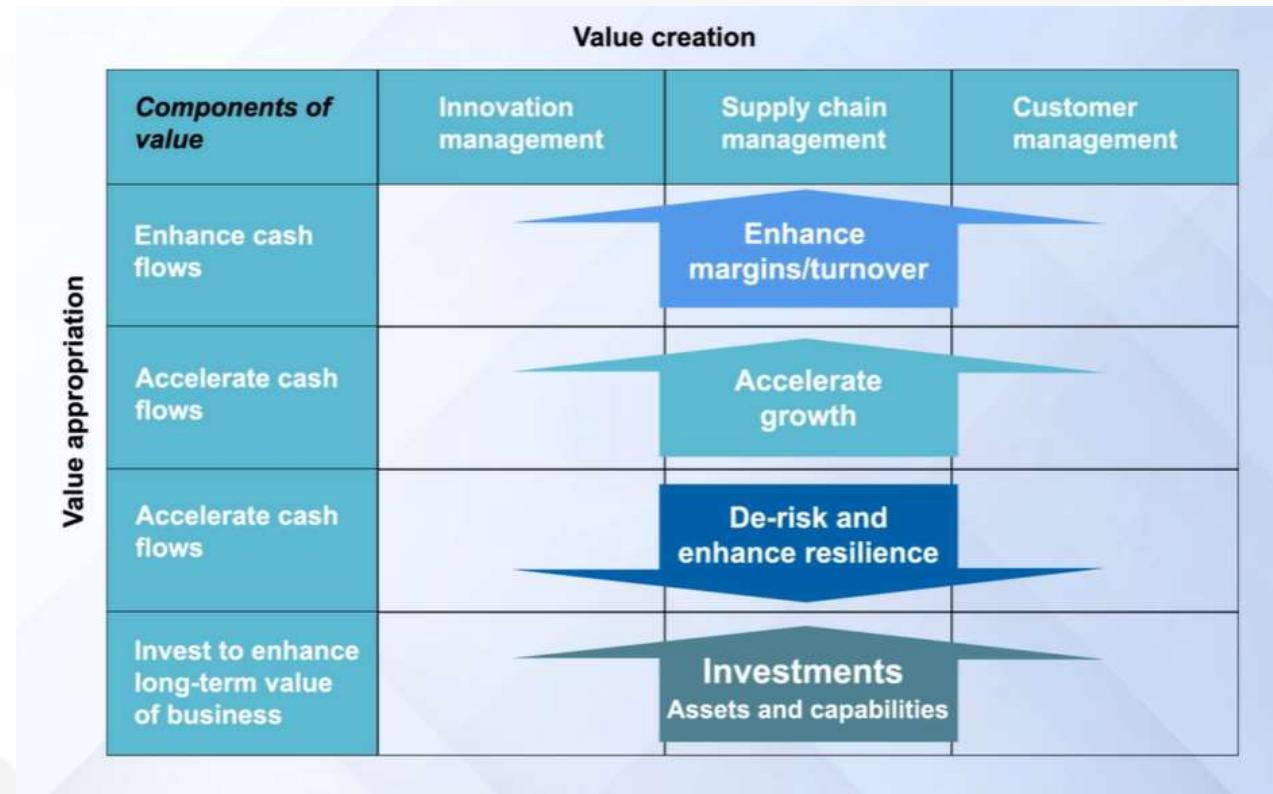
Aligning Customer and Shareholder Value

| Value creation + Value proposition | | | | |
|------------------------------------|---|-------------------------|---------------------|--|
| Value creation | | | | |
| Components of value | Innovation management | Supply chain management | Customer management | |
| Value appropriation | Enhance cash flows | | | |
| | Accelerate cash flows | | | |
| | Accelerate cash flows | | | |
| | Invest to enhance long-term value of business | | | |

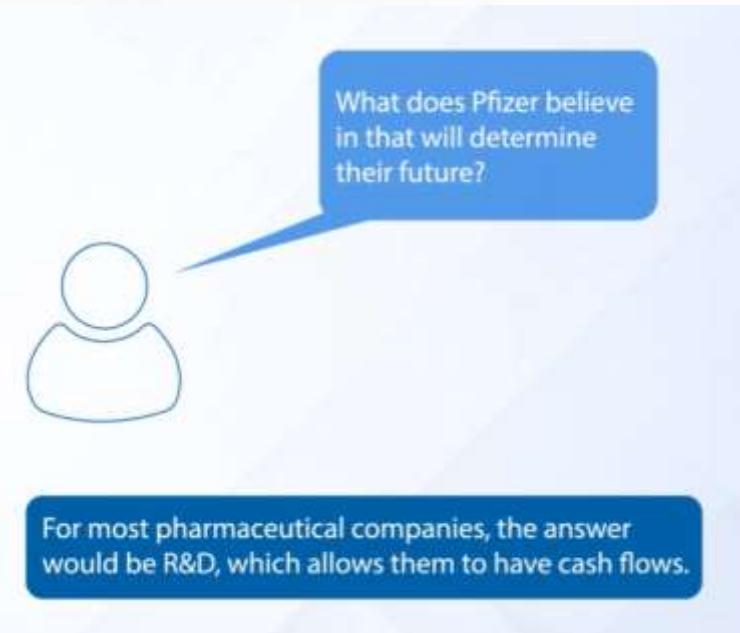
Aligning Customer and Shareholder Value

| | | Value creation | | | |
|---------------------|---|-----------------------|-------------------------|----------------------|--|
| Components of value | | Innovation management | Supply chain management | Customer management | |
| Value appropriation | Enhance cash flows | Pfizer intel | AMD DELL | PORSCHE Unilever | |
| | Accelerate cash flows | SAMSUNG | ZARA | Apple charles SCHWAB | |
| | Accelerate cash flows | gsk Gillette | IndiGo Southwest | SINGAPORE AIRLINES | |
| | Invest to enhance long-term value of business | intel Apple | PORSCHE | Microsoft | |

Integrating Value Creation and Value Appropriation



Reduction of Risk by Pfizer



Reduction of Risk by Pfizer



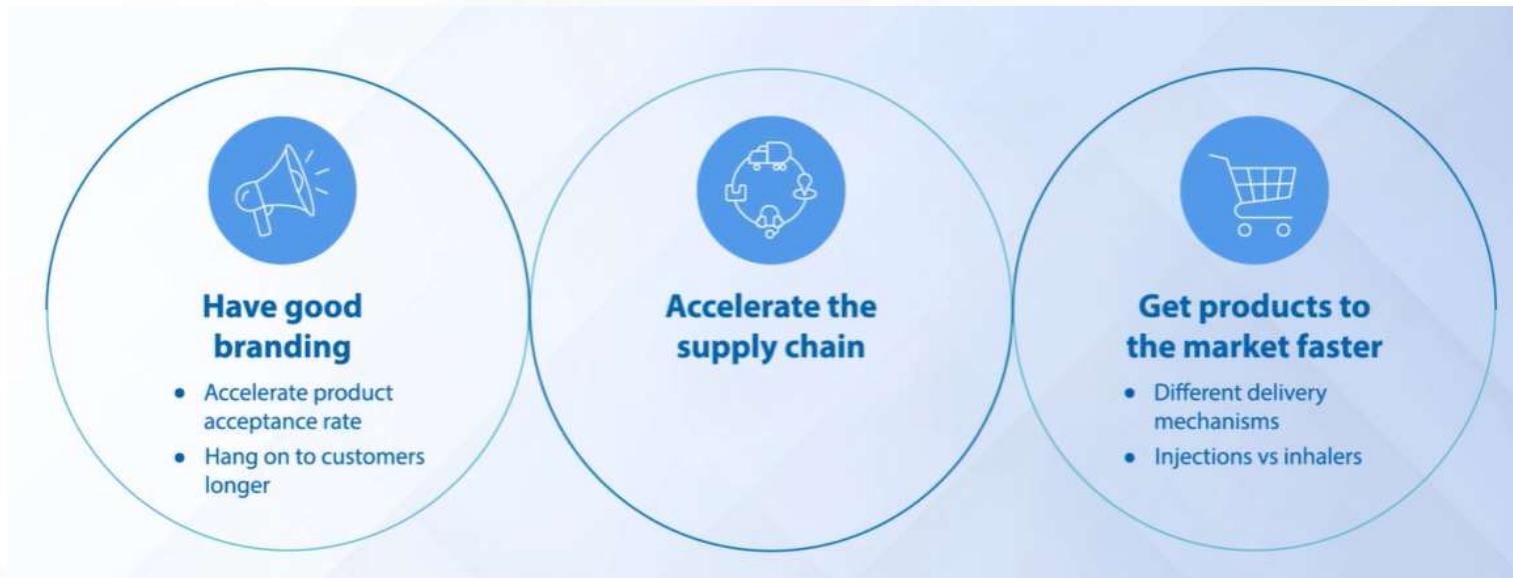
Reduction of Risk by Pfizer



We have an excellent sales team and management. We can get the product into the market faster.

Acquisitions like Warner-Lambert are giving Pfizer a broader portfolio of products which is **reducing the risk**.

Business Strategies Adopted by Viagra



Customer Shareholder Value at Pfizer

| Components of value | Innovation management | Supply chain management | Customer management |
|---|---|---|---|
| Enhance cash flows | Molecule | Minimize | Website |
| Accelerate cash flows | Drug test results | Detailing | Viagra |
| Accelerate cash flows |   |   | Brand equity (Rx to OTC) Co-branding |
| Invest to enhance long-term value of business | \$300-500 Research of R&D | \$100-200 Development of R&D | \$100-200 branding |

Metrics for Value Creation and Extraction

| Components of value | Product innovation | Operational excellence (supply chain) | Customer management |
|---|---|--|---|
| Enhance cash flows (profitability) | Margins via differentiation modular designs to reduce costs | Reduce WC via JIT principles Use information to drive SC processes | Margins via branding, x-sell, up-sell |
| Accelerate cash flows (growth) | Time-to-market speed-up product development | Time-to-volume Reduce order-delivery time | Time-to-market penetration Reduce customer solutions time |
| Reduce volatility and vulnerability of cash flows | Options; product differentiation product/tech. platforms | Process innovation Maximum synergies across products | Customer retention brand loyalty LT service contracts value migration |
| Investments/ enhance LTV value of business | Product platforms RD&E, patents design agility | Property and plant process platforms (example: assembly line) | Customer/brand platforms distribution relations |

Metrics for Value Creation and Extraction



- Marketing is an investment
- Companies figure out what the value of investments for growth and resilience is.

Value of Growth and Resilience

Zara's Business Model

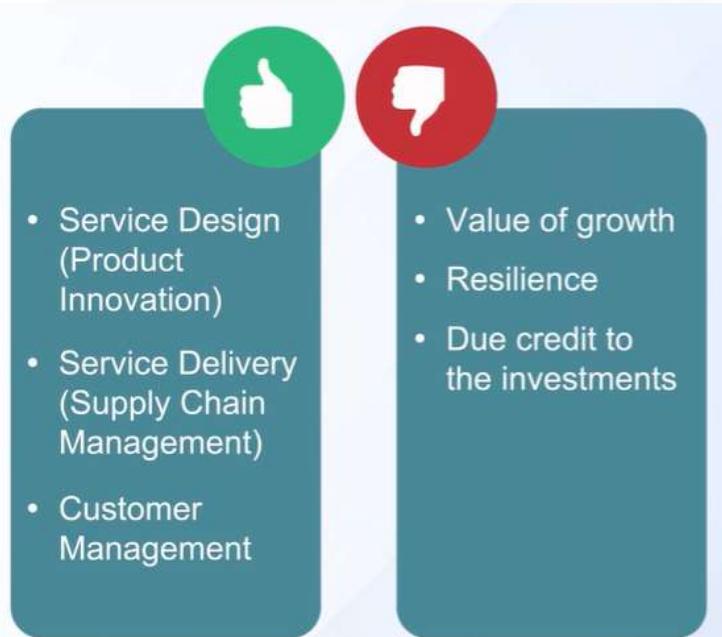
| Components of value | Service design (product innovation) | Service delivery (supply chain management) | Customer management |
|---|--|---|--|
| Enhance cash flows (profitability) | Fresh, differentiated designs | Low Inventory | Scarcity, floor displays = price premium |
| Accelerate cash flows (growth) | Quick design | Faster design cycles; frequent refurbishment | New designs + buzz/ WOM marketing |
| Reduce risk | Test market process Other manufacturers cannot copy quickly | 48-hour delivery; limited production runs; flex manufacture | Brand / customer loyalty & limited discounting |
| Invest/enhance long-term value of business | Large design team | Local (European) production; information technology | Real estate / high end locations |

Zara's Business Model

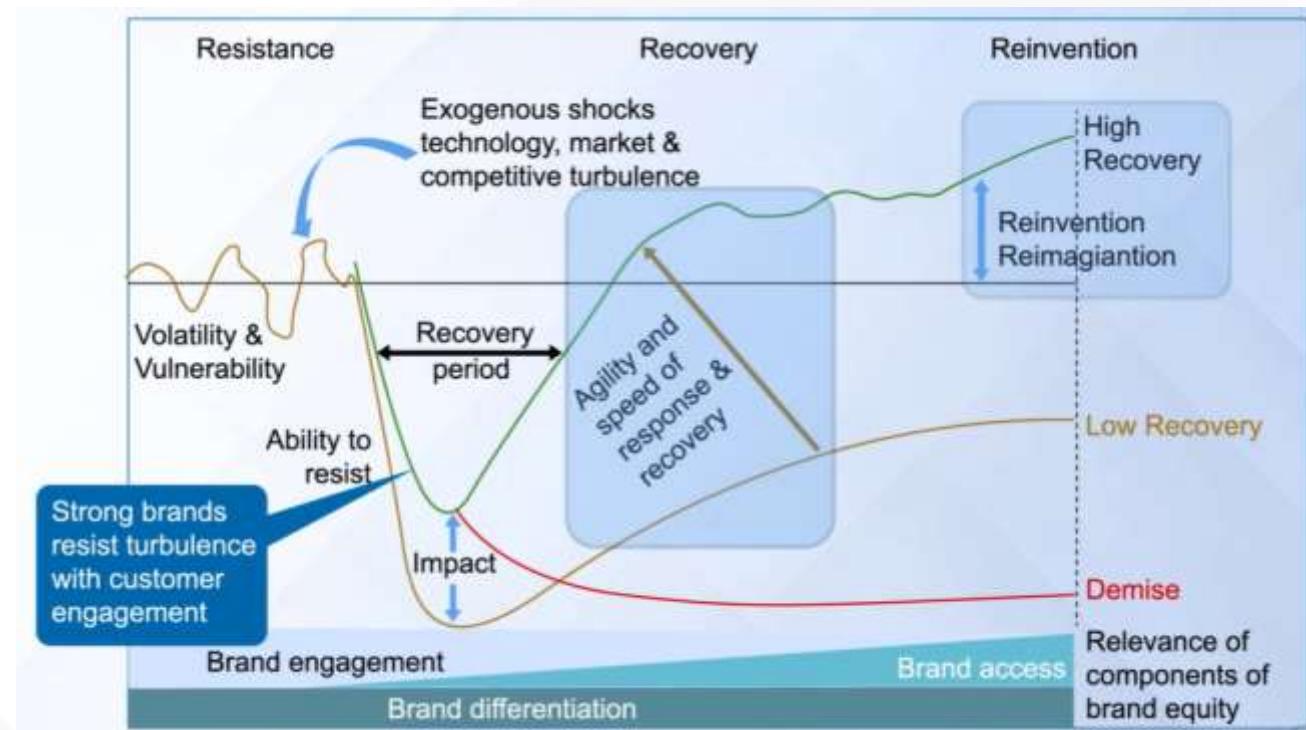
| Components of value | Service design (product innovation) | Service delivery (supply chain management) | Customer management |
|---|--|---|--|
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| Invest/enhance long-term value of business | Large design team | Local (European) production; information technology | Real estate / high end locations |

- Branded goods give higher margins.
- Better supply chain management give lower inventories.

Zara's DuPont Model



Resilience of the Brands



Brand Resilience: Nike and Kodak

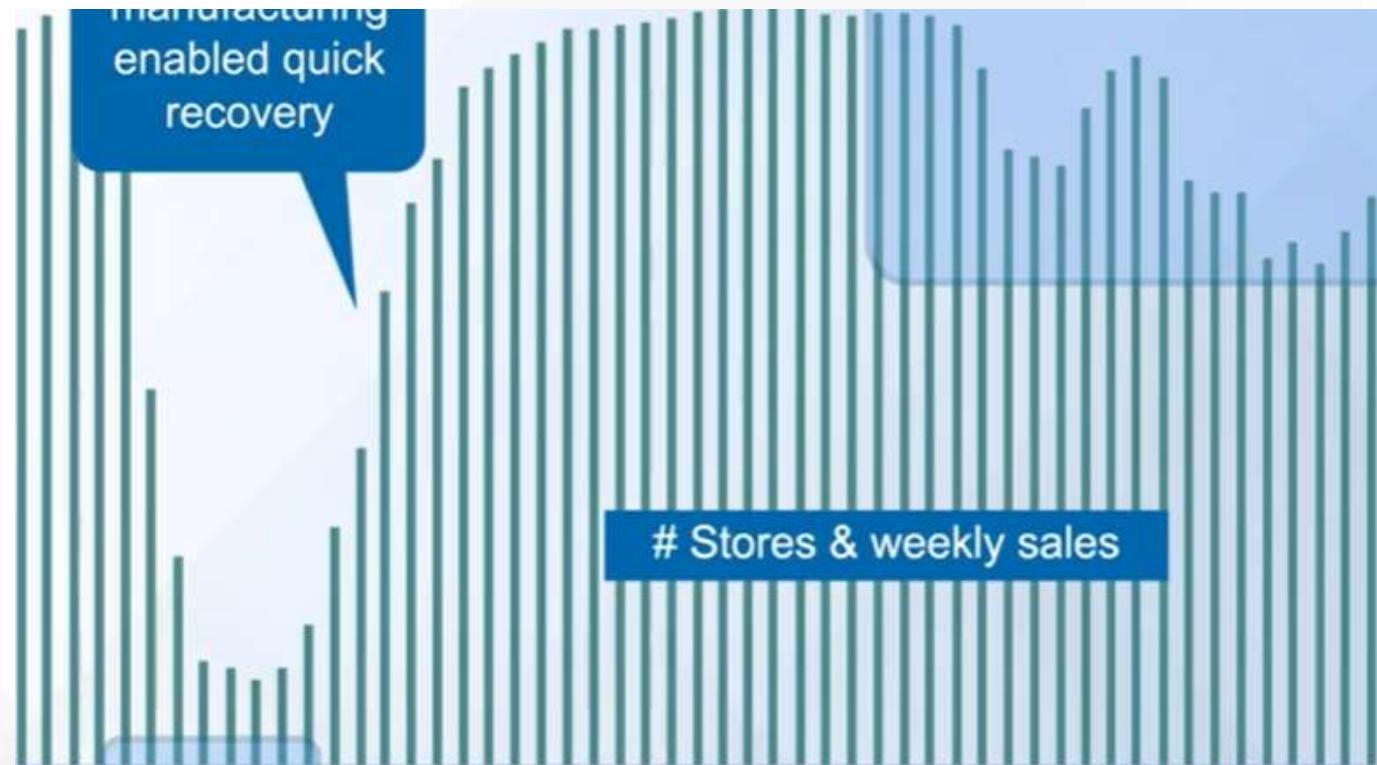


- Direct-to-customer
- Expanded direct sales through stores and online



- Unable to adjust to turbulence
- Went out of business

Zara: Integrated Supply Chain



Post-COVID Strategies: Reimagine, Reinvent, Recover



Aapki Jeet. Hamari Jeet.

GST (Goods
and Service
Tax)

Ashok Leyland: GST



Under GST:

- Tax went to the centre and then got redistributed to the states
- Trucks did not have to stop at the border to pay any tax
- Improved running time from 8hrs to 12hrs

Post-COVID Strategies: Reimagine, Reinvent, Recover



Ashok Leyland: GPS

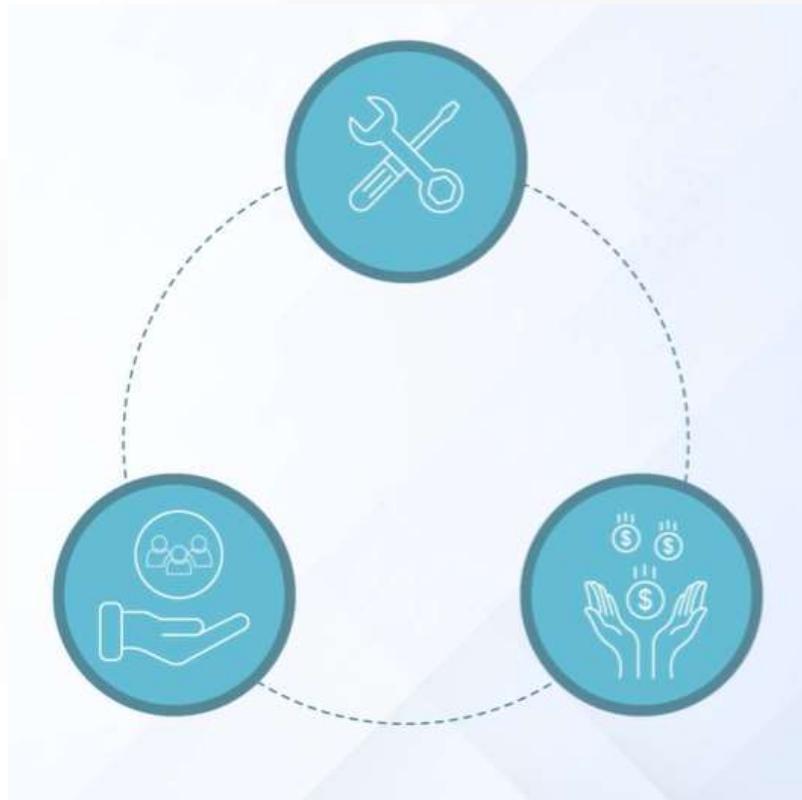


- Tracked truck position and switched drivers at different points
- Improved running time from 8hrs to 16hrs
- Reduced truck demand to around 50%

Post-COVID Strategies: Reimagine, Reinvent, Recover



Ashok Leyland: Services

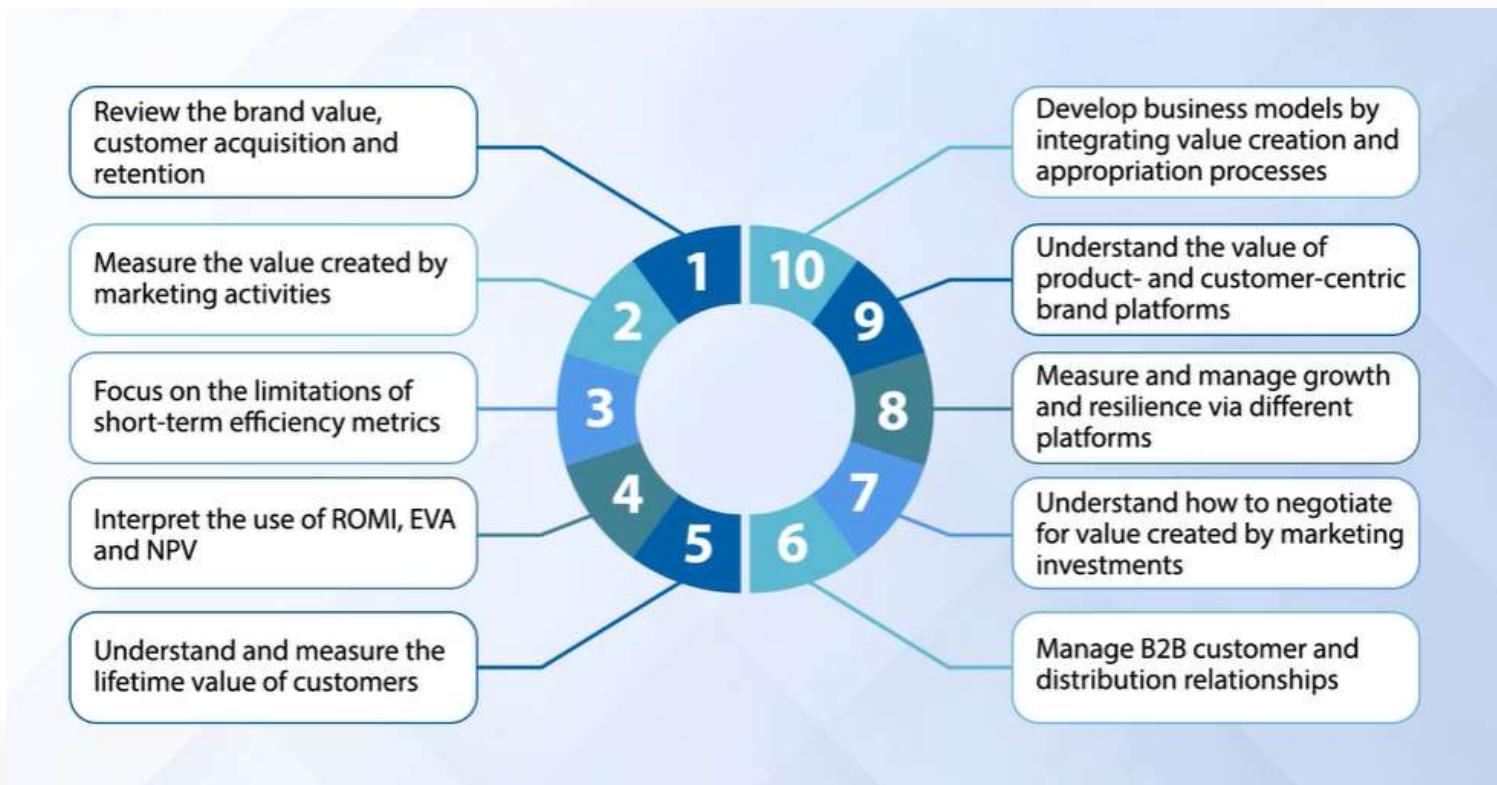


Ashok Leyland: Adjusting Business Models

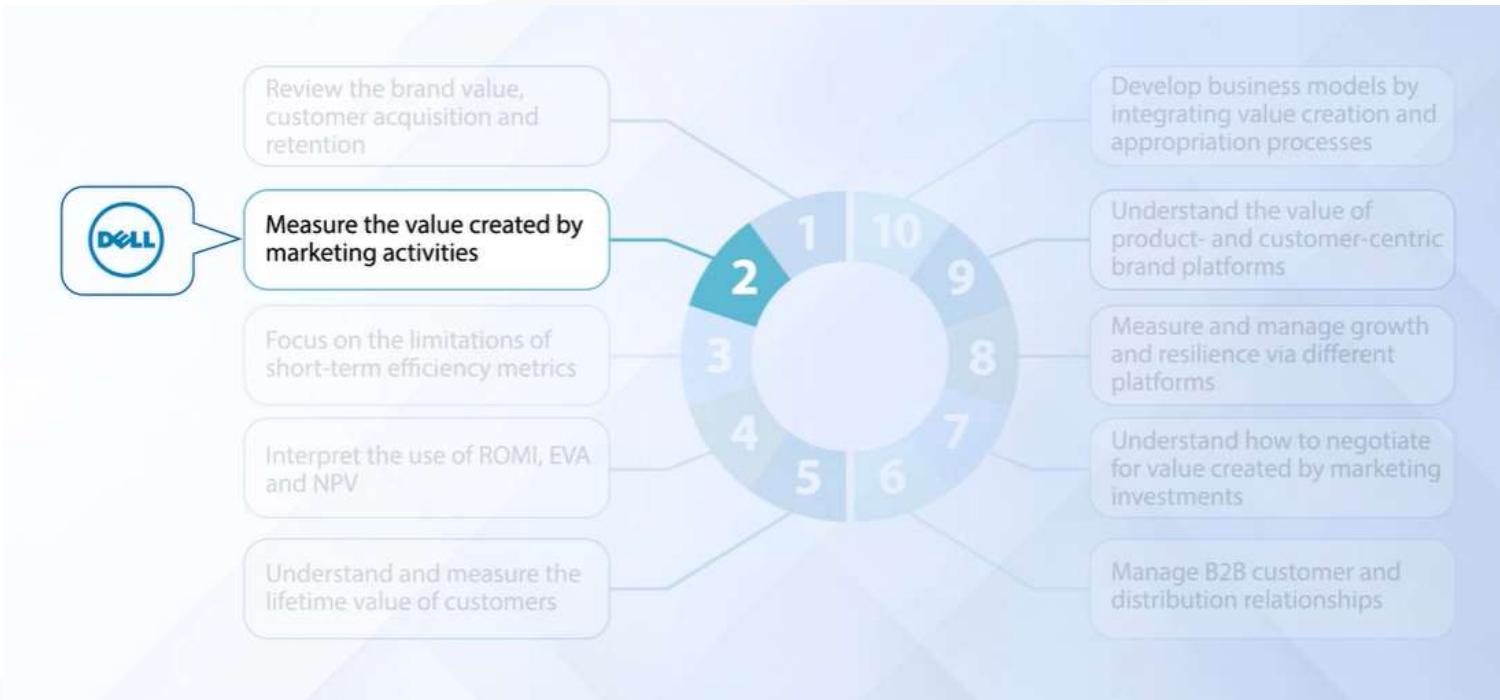
| Components of value | Innovation management | Supply chain management | Customer management |
|---|---|--|--|
| Enhance cash flows |  |  |  |
| Accelerate cash flows |  |  | |
| Reduce volatility and vulnerability of cash flows (de-risk) |  | |  |
| Invest to enhance long-term value of business |  |  Driver Services | |

Summary

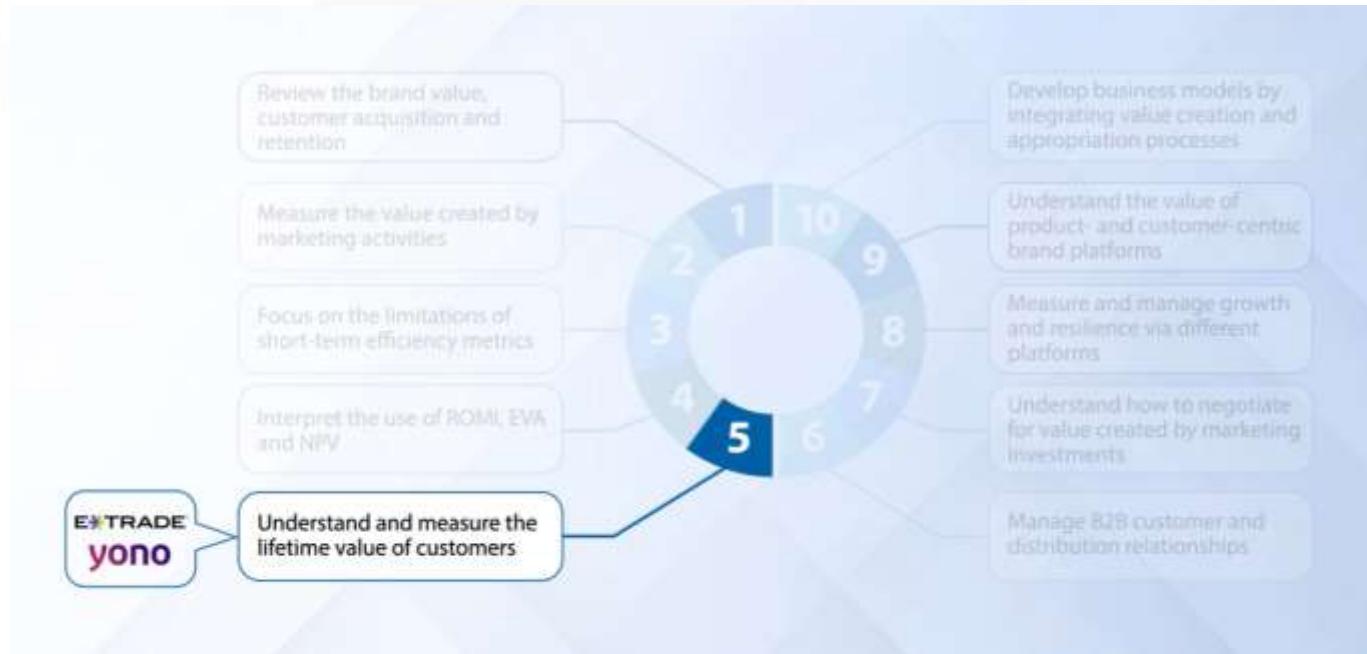
Key Learnings



Key Learnings



Key Learnings



Key Learnings



Key Learnings



Key Learnings



Assets



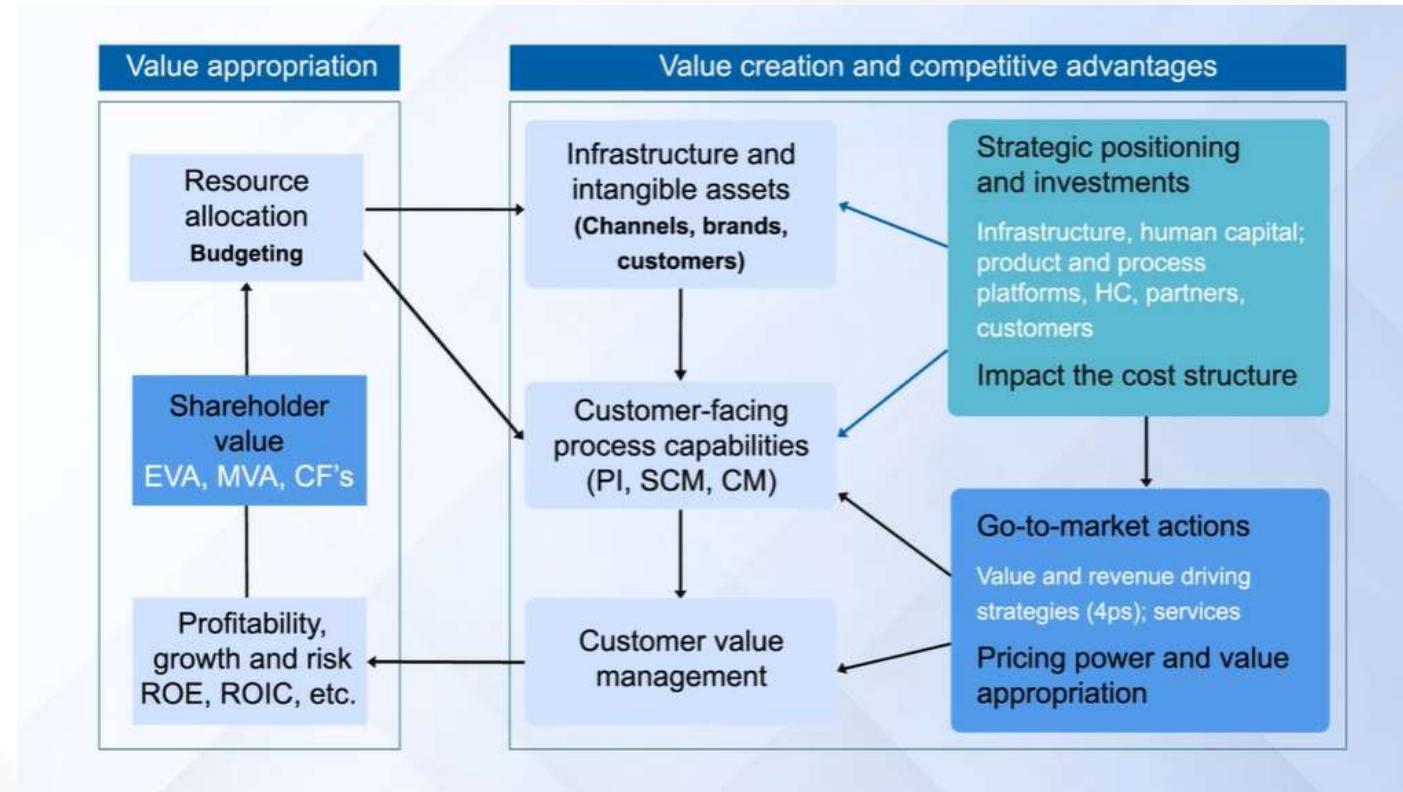
Assets are:

- Infrastructure/factory
- Intellectual property
- Brand
- Customers

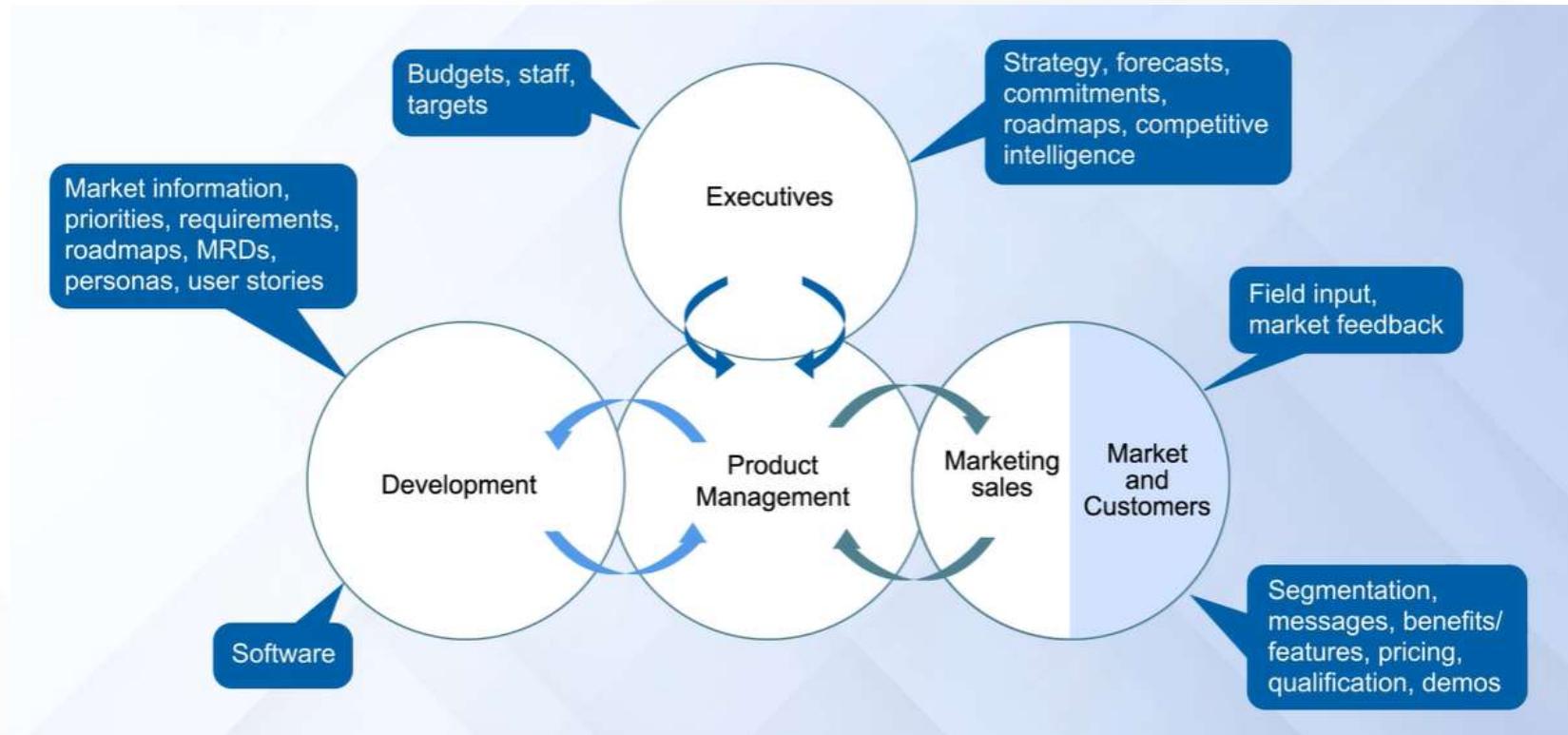
Process insights help to manage:

- Supply chain process
- Customer care process

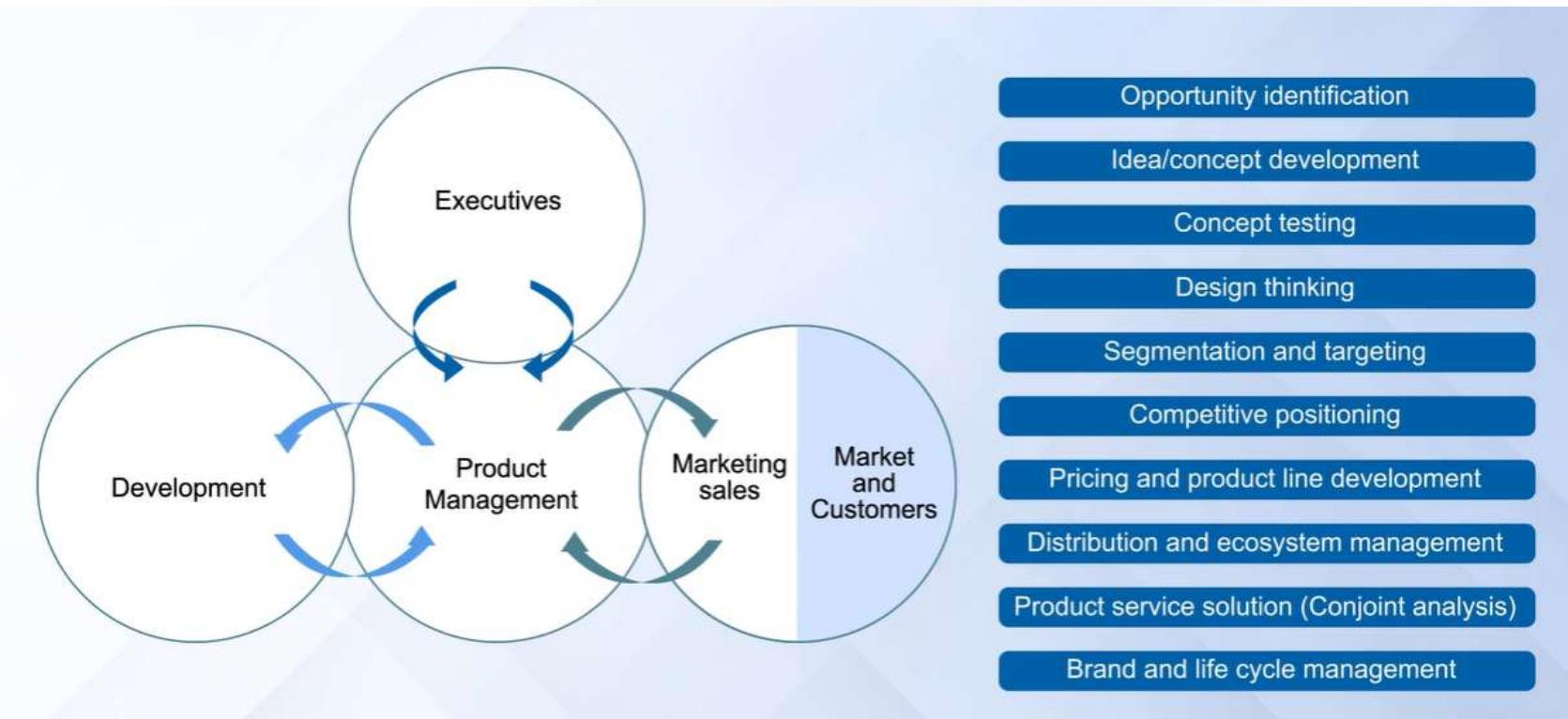
Business Innovation and Performance Metrics



Product Management and Development



Product Management and Development





ISB | **Executive**
Education