1

Profitability framework

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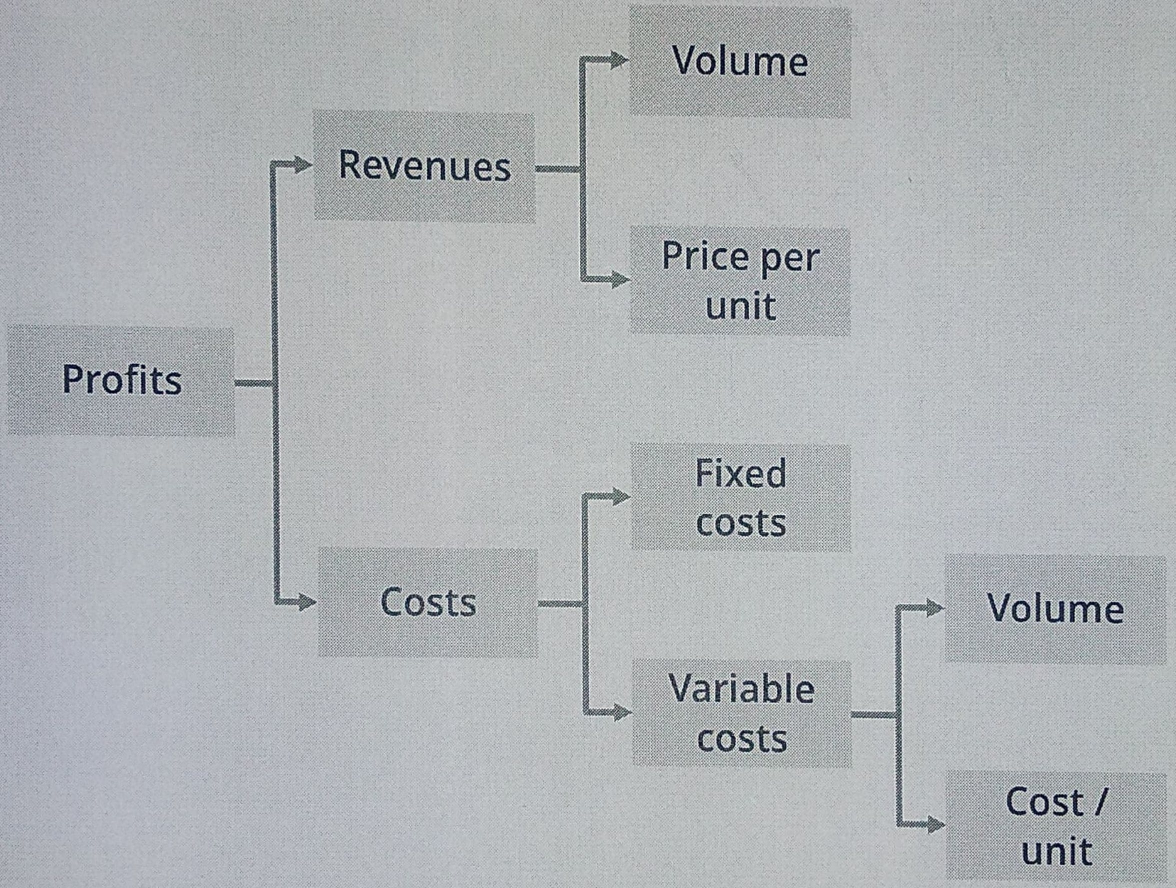

Useful revenue segmentation
- By product type
- By distribution channel
- By geography
- By customer type

Fixed costs examples:
- Rent
- Staff overhead
- Loan interest

Variable costs example
- Raw materials
- Delivery
- Commission
- Direct labour

4Ps framework

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2

Product	Price	Promotion	Place
• Customer need fulfilled	• Perceived value for customer	• Marketing messages	• Possible channel (E.g.: physical, website, etc.)
• Usage (who, where, how, etc.)	• Competitor prices	• Media type (E.g.: TV, Facebook, etc.)	• Customer expectation
• Good vs. service	• Customer price sensitivity	• Best time to promote (E.g.: Halloween)	• Requirement for sales team?
• Product lifecycle (new vs. mature)	• Production cost	• Competitors' strategies	• Competitor's strategies
• Substitutes	• Etc.	• Etc.	• Etc.
• Etc.			

3

Porter's 5 forces

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Customers bargaining power

- Customer concentration (E.g.: top 3 as % revenues)
- Price sensitivity
- Information availability

Suppliers bargaining power

- Supplier concentration (E.g.: top 3 as % revenues)
- Cost of switching from one supplier to another
- Supplier differentiation

Threat of substitute

- Potential new substitutes
- Ease of substitution
- Evolution of customer propensity to substitu

Threat of new entrants

- Regulation authorisations required
- Capital requirements
- Economies of scale
- Network effects

Existing rivals

- Number of competitors and market share
- Similarity between products
- Financial health of competitors

4

3Cs framework

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Customers	Competition	Company
• Customer demographics (E.g.: age, sex, income, etc.) • Customer needs • Customer segments size and growth rates • Customer willingness to pay and price sensitivity	• Competitors' value proposition and brand • Competitors' market share and growth • Competitors' financial health	• Product offering • Profitability • Core competencies • Unique selling point • Financial performance ar resources

Market entry framework

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Market

- Market size
- Product types
- Market profitability
- Competition intensity
- Market regulation

Client capabilities

- Differences between client's current and new market
- Is it the client's first new market entry?
- Have other companies entered already?

Financials

- Current financial situation of the client
- Cost to enter new market
- Ongoing costs once market entered
- Expected revenues and ROI

Entry strategy

- Ideal timing of market entry
- Do a test in a region first?
- Build own company, buy competitor or do JV?
- Control from hea office or decentralise?

Pricing framework

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Cost-based

- Fixed costs
- Variable costs
- Number of units sold annually
- Profitability targeted

Value-based

- Price of next best alternative to product offered
- Features that makes product better than next best alternative
- Value of these features

Competitor-based

- Available substitutes from competition
- Price of these substitutes
- Value of our product vs. substitutes

Overall strateg

- Pricing strategy objective? High profitability, win market share, et
- Cross-sell/ upsell opportunities to take into accoun
- Possibility to sell different version of the same product?

Merger and acquisition framework

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The market	The target	The buyer	Synergies and ris
• Are both companies in the same market? • Market size and growth • Market profitability • Competition intensity • Market regulation	• Current / future financial position of the target • Important assets and capabilities owned by target • Quality of target's management team • Culture of target company vs. buyer	• Acquisition rationale: undervaluation, control or synergies • Acquisition financing • Does buyer have experience with other acquisitions? • Right time to make acquisition?	• Value of individu and combined entities • Cost synergies • Revenue synergi • Biggest risks of failure

* Guesstimate stats ⇒

Life expec — ME → 69.2, FE = 71.8, Avg = 70.8

India's Population :- 1.387 Billion (17.7% of total world)

[138.7 Cr]

- 52% - males (0.7176 Bn)
- 48% - females. (0.6624 Bn)

Age structure :-

- 0-14 - 27%. [30%]
- 15-24 - 18%.
- 25-54 - 40%.
- 55-64 - 7.6%.
- 65+ - 6.5%.

world pop^n = 7.3 bn

50% M, 50% F

3.65 Bn, 3.65 Bn

- Asia → 60% - 4.3 bn
- Africa → 15% - 1.09 bn
- Europe → 10% - 730 mn
- LA = 10% - 730 mn
- NA = 5% - 365 mn

Urban :- 34.93%.] pop^n 30%
Rural :- 65%.] 70%

- 0-14 - 30%
- 15-35 - 40%
- 35-60 - 25%
- 60+ 5%

(8-40) 50%

10,00,00,000

1 crore (7) zeroes, 1 Lakh (5)

10,000,000,000

1 Bn (9 zeroes), 10 mn (7), 1 Hundred thousand (5), 1 mn (6) zeroes

[1L = 100,000 ; 1 cr = 10 mn]

[10 L = 1 mn]

geographical info^n.

Area :- 3.287 mn km²
NS → 3214 km.
EW → 2933 km

coastline - 7516.6 km

Income :- (avg household)

Avg household size → [4-5]

BPL $1.25/person/day

→ middle class (> ₹16k/pm) 30%.

→ lower middle class (8k - 16k) 40%.

→ BPL (< 8k) - 30%.

Income grp

- Poor - 20%.
- L = 75%.
- middle = 3.5%.
- UM → 1%.
- H = 0.50%.

1 million → 10 Lk

10 mn → 100 Lk → 1 cr

- L-5
- C-7
- mn-6
- Bn-9

100 mn → 10 cr (1000 Lk)

1000 mn → 1 Bn → 100 Cr → 10k lakh

business req tof^n

metropolitan cities (Pune)

- UMC - > 32k) - 10%.
- MC (- 16k - 32k) - 30%.
- LMC (8k - 16k) - 40%
- BPL (< 8k) - 20%.

(9) - AHS (urban)

Avg CR - 75%

Avg SR - 25% of income

- Food — 40%.
- Housing — 10%.
- Transport - 15%.
- Edu^n — 5%.
- Health — 5%.
- DS. — 25%.

Pune pop^n :-

÷ District (15 talukas (+2 city talukas)

- Baramati
- Bhor
- Pune
- Shirur
- Maval

[Procure based operational cost] - (20 blocks in Pune district)

Haveli taluka, Pune city - (3.828 mn), PCMC taluka

Rajguru

Urban agglom^n 6.6 mn

[Pune metrop^n] 7.38 mn ← PCMC, Pune, Khadki, Dehu road

4h

CURRENT MARKET
- SIZE
- GROWTH RATE
- CUSTOMER SEGMENTATION

MAJOR PLAYERS, MARKET SHARE, STRENGTHS AND WEAKNESSES

PRODUCT DIFFERENTIATION

BARRIERS TO ENTRY / BARRIERS TO EXIT

ENTERING

IF YES, HOW?

START FROM SCRATCH

ACQUISITION

JOINT VENTURE

COST BENEFIT ANALYSIS OF EACH

NO

Industry Analysis

- CURRENT MARKET
  - LIFE CYCLE (EMERGING? MATURE? DECLINING?)
  - PERFORMANCE (GROWING OR DECLINING?)
  - CLIENT'S POSITION WITHIN THE INDUSTRY
  - MAJOR PLAYERS AND THEIR MARKET SHARE
  - INDUSTRY CHANGES (NEW PLAYERS, TECHNOLOGY, REGULATIONS)
  - DRIVERS (BRAND, SIZE, TECHNOLOGY)
  - PROFITABILITY, MARGINS
- SUPPLIERS
  - HOW MANY?
  - PRODUCT AVAILABILITY
  - WHAT'S GOING ON IN THEIR MARKET?
- FUTURE
  - ARE PLAYERS ENTERING OR LEAVING THE MARKET?
  - MERGERS AND ACQUISITIONS?
  - BARRIERS TO ENTRY, TO EXIT?
  - SUBSTITUTES?

Mergers and Acquisitions

Objectives, costs, due diligence, exit strategies

- OBJECTIVES WHY BUY?
  - MARKET ACCESS
    - BOOST BRAND
    - INCREASE MARKET SHARE
  - DIVERSIFY HOLDINGS
  - PRE-EMPT COMPETITION
  - TAXES
  - SYNERGIES
    - COST SAVINGS
      - REDUCTION OF FIXED AND VARIABLE COSTS
    - CULTURAL INTEGRATION
    - DISTRIBUTION CHANNEL EXPANSION
  - SHAREHOLDER VALUE
- ACQUISITION COSTS
  - FAIR PRICE? IS IT PROFITABLE?
  - CAN WE AFFORD IT? HOW TO PAY FOR IT?
  - REINTEGRATION COSTS
  - WHAT IF THE ECONOMY SOURS?
- DUE DILIGENCE / RISKS
  - WHAT SHAPE IS THE ECONOMY IN?
  - A MARKET LEADER?
  - HOW SECURE ARE MARKETS, THEIR CUSTOMERS AND SUPPLIERS?
  - INDUSTRY OVERALL/TECHNOLOGY RISKS
  - MARGINS
  - COMPETITIVE RESPONSE
- EXIT STRATEGY
  - HOLD FOR HOW LONG?
  - BREAK IT UP AND SELL OFF ITS PARTS

Step 3: Supply and demand. (You'll win big points for graphing your answer.)

- What's the supply? How's the demand?
- How will pricing have an effect on the market equilibrium?
- Matching competition: What are similar products selling for?
- Are there substitutions (in this case, Microsoft® Word, typewriters, etc.)?

Basically, there are four main ways to price the product: competitive analysis, cost-based pricing, price-based costing and company objective.

Competitive Analysis: Are there similar products out there? How does our product compare to the competition? Do we know their costs? How are they priced? Are there substitutions available?

Cost-based Pricing: Take all our costs, add them up and add a profit to it. This way you'll know your break-even point.

Price-based Costing: What are people willing to pay for this product? If they're not willing to pay more than what it costs you to make, then it might not be worth making. On the other hand, they may be willing to pay much more than what you would get by just adding a profit margin. Profit margins vary greatly by industry. Grocery stores have a very thin profit margin, while drug companies traditionally have a large profit margin.

Company Objective: What is the motivation behind the pricing? Is the company interested in profits (usually priced higher) or market-share (usually priced lower)? This can often be the deciding factor when picking a price.

However, when solving a pricing problem, you need to look at all four of these strategies and see where, or if, they intersect.

Pricing Strategies

- COMPETITIVE ANALYSIS
  - COMPETITORS' PRICES
  - COMPETITORS' PRICES COMPARED TO OURS
  - SUBSTITUTIONS
  - CONSUMER BUYING HABITS
- COST-BASED PRICING
  - COST OF GOODS SOLD — WHAT DOES IT COST TO MAKE?
  - WHAT'S OUR BREAKEVEN POINT?
  - HOW MUCH PROFIT MARGIN CAN WE ADD?
- PRICE-BASED COSTING
  - WHAT ARE CUSTOMERS WILLING TO PAY FOR THE PRODUCT?
  - WHAT'S IT WORTH TO THEM COMPARED TO OTHER THINGS?
  - SUPPLY AND DEMAND
- COMPANY OBJECTIVES
  - MARKET SHARE
  - PROFITS

GROWTH STRATEGIES

- INCREASE DISTRIBUTION CHANNELS
- INCREASE PRODUCT LINE
- INVEST IN MAJOR MARKETING CAMPAIGN
- DIVERSIFY PRODUCTS AND SERVICES
- ACQUIRE COMPETITORS