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# GHAR GHAR MAA SWASTHYA

## Report: CRS Workshop on Costing and Pricing

## August 2012

## Submitted by: MART India

## USAID Contract No: AID-367-C-10-00001

**COR: Mr. Pangday Yonzone**

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# Background

Ghar Ghar Maa Swasthya consists of two components. Under the first component, USAID funds CRS for social marketing activities, focusing on sustainability through commercial marketing in the urban areas and promoting subsidized products in the rural, hard-to-reach areas. Under the second component, USAID funds Family Health International (FHI 360), to assist CRS to strengthen its organizational capacity and to design and implement behavior change communication activities, such as generic campaigns promoting family planning best practices.

In this context FHI 360 organized the "Cost Structures and Pricing Workshop for CRS staff in 13-14 August 2012.

# Objectives

The objective of the workshop was to impart skill to CRS staff to enable them to calculate total unit cost of its commodities and services.

# Facilitation Team and Participants

The workshop was well attended by 26 participants. The participants were senior level staff from Nepal CRS Company and FHI 360/GGMS project (see Annex I for a full list of participants). The lead trainer of the workshop was Ms. LatikaTandon, of MART/India. Mr. Benjamin Mathew, also from MART/India co-facilitated the workshop

# Workshop Activities

**DAY ONE**

On 13 August 2012, the workshop was started in the conference hall of Chhahari training center. Mr. Hare Ram Bhattarai, Senior Tech. adviser of FHI 360 opened the workshop and welcomed the participants.

The workshop started in the morning with participants' introduction where all the participants and facilitators introduced themselves. The lead facilitator then proceeded to explain the background, concept, methodology, content and schedule of the workshop that would take place over the next two days.

After that the lead facilitator explained and discussed about cost, accounting and pricing.

This session was conducted in a participatory and discussion based approach which is more effective than another methods. The discussion focused on real problems faced by CRS in respect of calculating the cost of its commodities.

The first session focused on propose and objectives of the general costing principles, overall approach, roles and responsibilities, terms and definitions, cost classifications etc. The lead facilitator explained above topics using different techniques like a quiz contest, group discussion, and question answers methods.

The next session started after lunch break. This session totally concentrated on understanding about Cost. Participants and facilitators discussed about determining unit costs, cost allocation, and current scenario of CRS's cost analysis.

All the participants actively participated and cleared their confusion regarding the concept and calculation of cost.

**DAY TWO**

On this day all sessions were facilitated by LatikaTandon. The total duration of the day was divided into two sessions; before and after lunch sessions. Main purpose of pre-lunch session was to provide detail information about market positioning, develop marketing strategy, evaluate product price relationship and assess external/environmental factors. There was a good interaction between participants and trainer.

In the final after lunch session of the workshop several topics like product lifecycle, assessment of internal factors, and determination of price, re-assessment and altering the price. This session was facilitation by Ms. LatikaTandon who tried to answer questions raised by the participants.

At the end of the day, a 20 minute quiz was conducted to evaluate learning level of the participants.

The participants received their participation certificates during the closing session. This session was chaired by Mr. Peter Oyloe, Chief Party of FHI 360 and Ms. Latika Tandon, the lead facilitator from MART/India. Soon after, the workshop was officially closed by Mr. Peter Oyloe, Chief Party of FHI 360.

## Workshop Evaluation

The evaluation of the training workshop found the followings

❖ **Learning**

The workshop helped the participants to

- develop communication skills
- develop presentation skills by improving body language, eye contact, respect for each other's ideas etc.
- increase confidence level

- learn ways to concentrate in subject matter by avoiding various distractions

- **Strength of Workshop**
  - The participant said that the workshop agenda was useful and appropriate for CRS
  - Trainers were able to clearly explain and present the subject matter
  - The overall training environment was good and the workshop ended peacefully
  - There was no complaint about the logistics, training venue
- **Weakness of the Workshop**
  - The time schedule was not strictly maintained. The sessions started late and could not complete on time.
  - Some participants had language problem as the sessions were mostly conducted in English
  - Sometimes the participants were seen to be bored because of the monotonous way of conducting the session. There were no energizers and/or games to boost the energy level of the participants.
  - Only one facilitator, Ms. Latika Tendon, handled almost all the sessions. It would have been more interesting if both facilitators had facilitated.

## Recommendations

- If possible, provide refresher training in future
- Participants should practice the learnings from the workshop in real work environment.

# Annex-I: List of Participants

## Cost Structures and Pricing Workshop for Nepal CRS Company

**13-14 August, 2012**

**Participation Record**

| S.No | Name | Designation | Organization |
|---|---|---|---|
| 1 | Jyoti Bhagat Shrestha | Finance Manager | Nepal CRS Company |
| 2 | Sitaram Subedi | Sr. Finance officer | Nepal CRS Company |
| 3 | Ajaya Risal | Sr. Finance officer | Nepal CRS Company |
| 4 | Rohit Shrestha | Director | Nepal CRS Company |
| 5 | Niraj Khanal | Field Manager | Nepal CRS Company |
| 6 | Rajiv Sharma | Sr. Officer MIS | Nepal CRS Company |
| 7 | Saroj Adhikari | Area Manager | Nepal CRS Company |
| 8 | Suresh Bam | Adnim/finance Officer | Nepal CRS Company |
| 9 | Ramesh Malla | Area Manager | Nepal CRS Company |
| 10 | Sanjay Raj Sharma | Admin/Finance Officer | Nepal CRS Company |
| 11 | Sudarshan Shrestha | Area Manager | Nepal CRS Company |
| 12 | LaxmiBaniya | Admin/Finance Officer | Nepal CRS Company |
| 13 | Suraj Sharma | Area Manager | Nepal CRS Company |
| 14 | Shyam Parajuli | Admin/Finance Officer | Nepal CRS Company |
| 15 | Govinda Thapa | Area Manager | Nepal CRS Company |
| 16 | SanjuJha | Admin/Finance Officer | Nepal CRS Company |
| 17 | Uttam Raj Regmi | Marketing Director | Nepal CRS Company |
| 18 | SushmaChitrakar | Training Manager | Nepal CRS Company |
| 19 | Sabina Baniya | Marketing Officer | Nepal CRS Company |
| 20 | Amit Pandey | Sr.Marketing Officer | Nepal CRS Company |
| 21 | Laxman Nepali | Training Manager | Nepal CRS Company |
| 22 | Mahesh Prasad Pokharel | Admin/Logistic Director | Nepal CRS Company |
| 23 | RishikeshKafle | Logistic Manager | Nepal CRS Company |
| 24 | Anjeeta Shrestha | Finance and Admin. Director | FHI 360 |
| 25 | CP Bhandari | Sinior Accountant Officer | FHI 361 |
| 26 | Amar Chand | Training and Facilitator (Intern) | FHI 362 |
| 27 | Benjamin Mathew | Trainy and Facilitator | MART |
| 28 | LatikaTandon | Trainer | MART |

## Annex-II: Workshop Schedule

# Cost Structures and Pricing Workshop
# 13-14 August, 2012
# Kathmandu, Nepal

| Time | Description | Remarks |
|---|---|---|
| **13 August, 2012** | | |
| 9:00 am- 12:30 pm<br>(Tea : 11:00 am) | **Module 1.1: INTRODUCTION**<br>1.1.1 Purpose and objectives of the General costing principles<br>1.1.2 Overall approach, roles and responsibilities<br>Module 1.2: Understanding Cost<br>1.2.1 Introduction<br>1.2.2 Terms and definitions<br>1.2.3 Cost Classifications<br>• Direct costs and indirect cost<br>• Fixed costs and semi-fixed cost<br>• Marginal Costing-Break even analysis | |
| **12:30 pm-1:30 pm** | **Lunch Break** | |
| 1:30 pm-5:00 pm<br>(Tea: 3:00 pm) | Module 1.2: Understanding Cost (Continued)<br>1.2.4 Determining unit costs<br>1.2.5 Cost Allocation (cost sharing) | |
| **14 August, 2012** | | |
| 9:00 am-12:30 pm<br>(Tea: 1100 am) | Module 2.1: Determine Market Positioning<br>Module 2.2 Develop marketing strategy<br>Module 2.3 Evaluate products price relationship<br>Module 2.4 Assess external/environmental factors | |
| **12:30 pm-1:30 pm** | **Lunch** | |
| 1:30 pm – 4:30 pm<br>(Tea: 300:00 pm) | Module 2.5: Align with the product lifecycle<br>Module 2.6: Assess internal factors<br>Module 2.7 Determine pricing<br>Module 2.8 Re-assess and alter pricing | |
| **4:30-5:00 pm** | **High Tea** | |

# Annex-III: Workshop Training Materials

# CRS WORKSHOP ON COSTING AND PRICING

# TOPICS FOR DISCUSSION

**MODULE 1: COSTING**

**MODULE 2 : PRICING**

MODULE 1

# UNDERSTANDING COSTS

# TOPICS FOR DISCUSSION

**Module 1 Costing**

- 1.1: Introduction
- 1.1.1 Purpose and objectives of the General costing principles
- 1.1.2 Overall approach, roles and responsibilities

**Module 1.2 Understanding Cost**

- 1.2.1 Introduction
- 1.2.2 Terms and definitions
- 1.2.3 Cost classifications
- 1.2.4 Determining unit costs
- 1.2.5 Cost Allocation (cost sharing)

# WHAT IS COST

- Cost = Factor Reward
- To manage the cost it is necessary to understand its
  - Function
  - Behaviour
- In accounting, the term cost refers to the monetary value of expenditures for raw materials, equipment, supplies, services, labor, products, etc. It is an amount that is recorded as an expense in bookkeeping records.

# PURPOSE & OBJECTIVES OF GENERAL COSTING PRINCIPLES

- To ensure that we get the **best value for money** in service delivery, a sound understanding of cost drivers, cost structures and service costing is needed.
- Good quality cost information is just as important to not-for-profit service entities as it is to other organizations.
- Understanding cost implications of providing products and services, managing these costs and providing the optimum mix of products and services with the **funding available will help improve outcomes for the social objectives** in question

# PURPOSE & OBJECTIVES OF GENERAL COSTING PRINCIPLES

- Understanding of costs at a granular level also provides a clear understanding of **funding required** for making available products and services to the last mile and making a **business case to the donors**
- Basic, consistent and reliable costing data is necessary for any organization in order for **good planning** to be possible.
- The general costing principals are intended to be a useful reference and equally applicable for organizations with social objectives when planning, developing and reviewing their services rendered. **Social organizations are equally accountable**

# PURPOSE & OBJECTIVES OF GENERAL COSTING PRINCIPLES

The key objectives of the general costing principles to assist CRS would be :

- Improving understanding of cost structures and cost drivers
- Standardize costs **across products and budgets**
- Improve cost control and **linkage to objective outcomes**
- Using indicative unit costs as an additional data source for **analyzing program viability**
- Provide one data source to improve validation and cross analysis and approaches to **support funding of new and existing programs**

# METHODS OF COSTING

- Standard Costing
  - "A **predetermined** cost which is calculated from **managements standards of efficient operations** and the relevant necessary expenditure." They are the predetermined costs on technical estimate of material labor and overhead for a selected period of time and for a prescribed set of working conditions. In other words, **a standard cost is a planned cost for a unit of product or service rendered**.
- Activity Based Costing (ABC)
  - **Activity-based costing** (**ABC**) is a costing methodology that identifies activities in an organization and **assigns the cost of each activity with resources** to all products and services **according to the actual consumption by each.**

# ADVANTAGES – STANDARD COSTING

### Efficiency measurement

The comparison of actual costs with standard costs enables the management to evaluate performance of various cost centres

### Management by Exception

The targets of different individuals are fixed if the performance is according to predetermined standards. In this case, there is nothing to worry. The attention of the management is drawn only when actual performance is less than the budgeted performance. **Management by exception means that everybody is given a target to be achieved and management need not supervise each and everything**.

### Cost control

- Every costing system aims at cost control and cost reduction. The standards are being constantly analyzed and an effort is made to improve efficiency. Whenever a **variance** occurs, the reasons are studied and immediate corrective measures are undertaken.

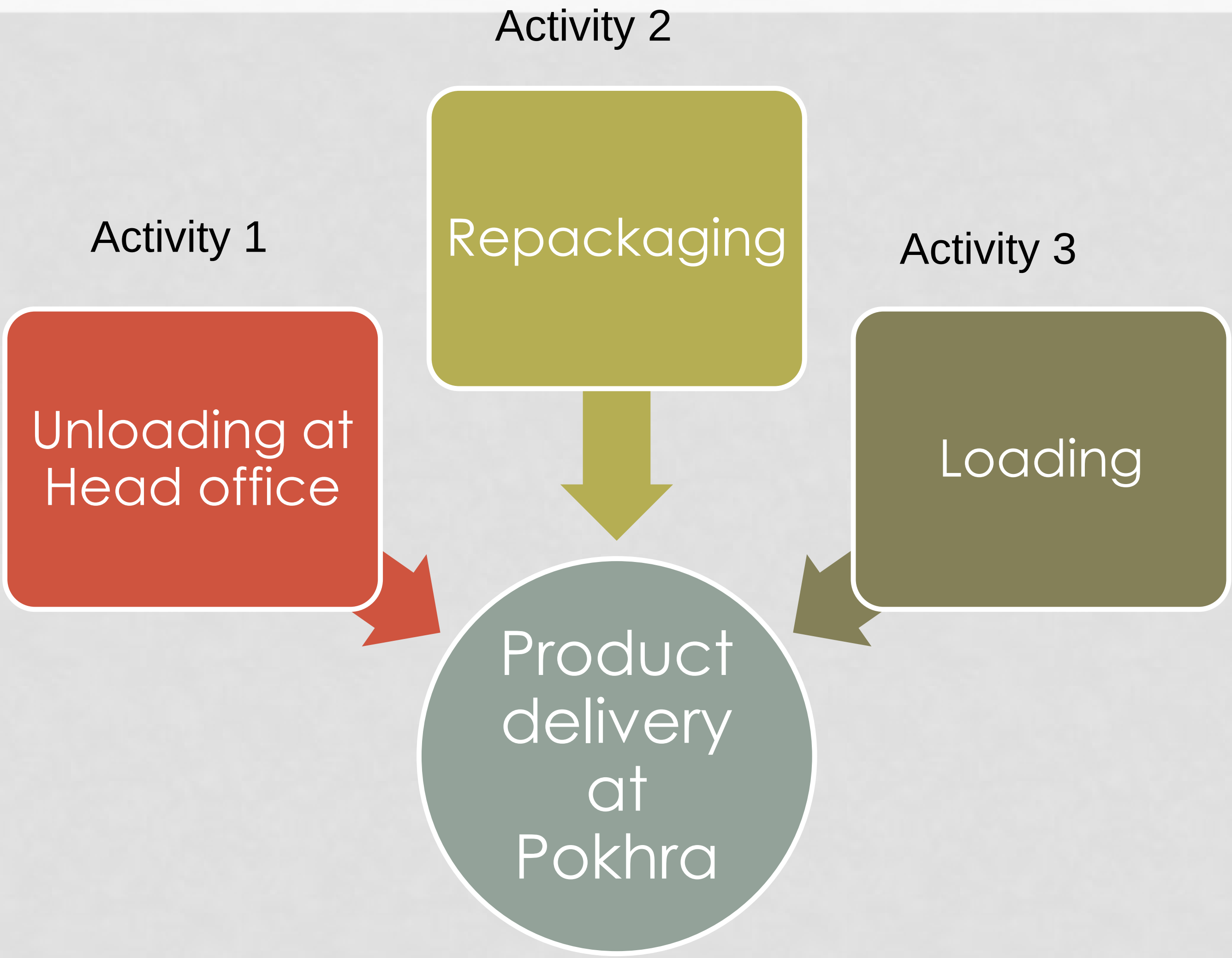
# ADVANTAGES – ABC

Allows an organization to **determine the actual cost associated** with each product and service produced by the organization without regard to the organizational structure.

It is developed to provide **more-accurate** ways of assigning the costs of indirect and support resources to activities, business processes, products, services, and customers.

An organization performs activities to do its business. These activities define the kind of business you are in: a ship owner has an activity to unpack boats; an accounting firm prepares tax returns; a manufacturer produces products; a council delivers services; a university teaches students, **CRS delivers family planning and reproductive health products and services**, . All activities consume resources. It is the consumption of these resources that adds to overhead costs. **The method allows for true allocation of costs to each product or service offered.**

# ABC- *ILLUSTRATIVE*



# CLASSIFICATION OF COSTS

**On the Basis of**

| Nature | | Function | | | | Behavior | |
|---|---|---|---|---|---|---|---|
| Direct | Indirect | Prime | Factory | Office | Selling | Fixed | Variable |

# TYPES OF COSTS

- Direct
- Indirect
- Variable
- Fixed (including overheads)
- Semi Variable

# DIRECT VS. INDIRECT COSTS

Direct costs are those for activities or services that benefit specific projects, e.g., salaries for project staff and materials required for a particular project. Because these activities are **easily traced to projects**, their costs are usually **charged to projects** on an item-by-item basis.

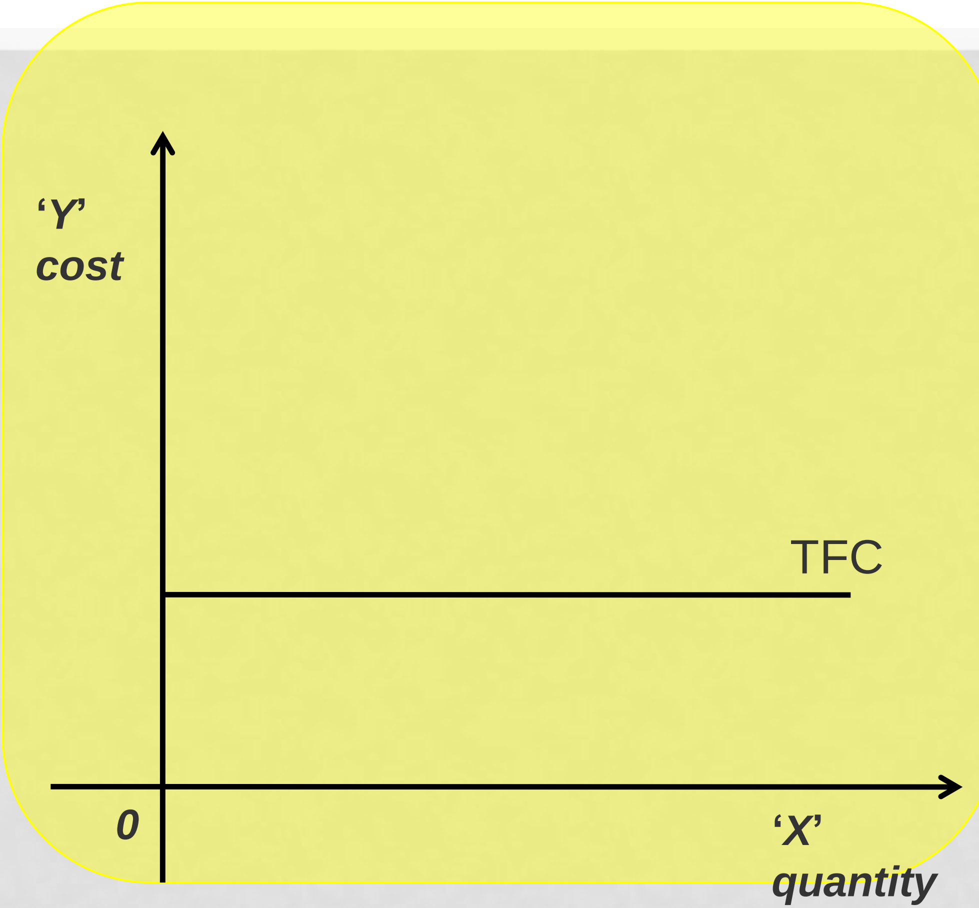
Indirect costs are those for activities or services that **benefit more than one project**. Their precise benefits to a specific project are often difficult or impossible to trace. For example, it may be difficult to determine precisely how the activities of the director of an organization benefit a specific project.

# DIRECT VS. INDIRECT COSTS- EXAMPLES

- **Costs usually charged directly**
  - Project staff
  - Consultants
  - Project supplies
  - Publications
  - Travel
- **Costs usually allocated indirectly**
  - Utilities
  - Rent
  - Audit and legal
  - Administrative staff
  - Equipment rental

# FIXED COSTS

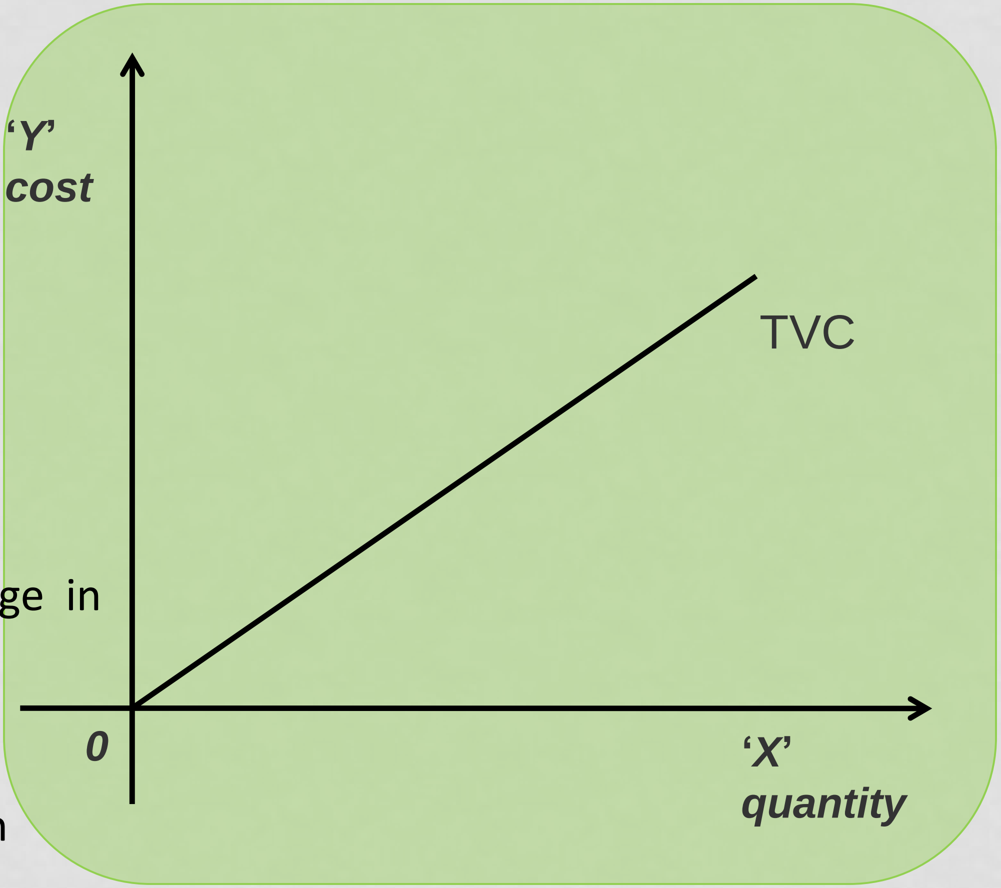
- The costs which remains constant irrespective of the volume of product produced or sold.
- Not changing in Total
- Always changing in per unit i.e. more units produced lower is the AFC as it is allocated to more units




Capacity utilization is the key.

# VARIABLE COSTS

- The costs which change **proportionately with the volume** of product produced or sold.
- No change in Per Unit
- Continuous change in Total i.e. TVC increases with TR




**Management of Variable Costs**

- Negotiating for a lower price
- Substitution of raw materials or change in mix without change in quality
- Alternate sourcing of raw materials
- Technological breakthrough
- Improved efficiency in energy utilization
- Improvement in input-output ratio
- Realizing higher value for by-products or wastages

# SEMI VARIABLE COSTS

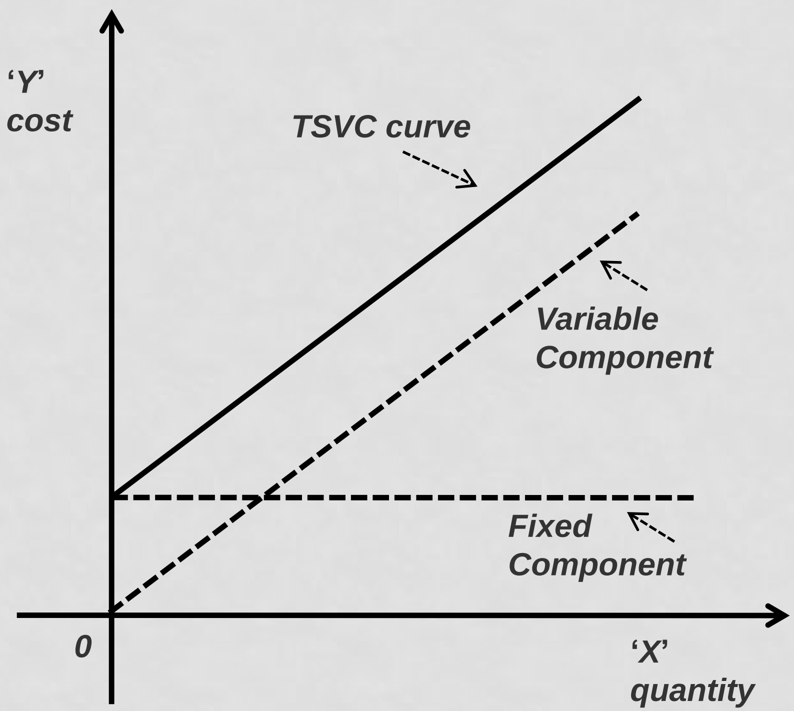
| Variable Costs | | |
|---|---|---|
| Quantity | Amount | Per Unit |
| 1 | 10 | 10 |
| 1,00,000 | 10,00,000 | 10 |
| 10,00,000 | 1,00,00,000 | 10 |

| Fixed Costs | | |
|---|---|---|
| Quantity | Amount | Per Unit |
| 1 | 10,00,000 | 10,00,000 |
| 1,00,000 | 10,00,000 | 10 |
| 10,00,000 | 10,00,000 | 1 |

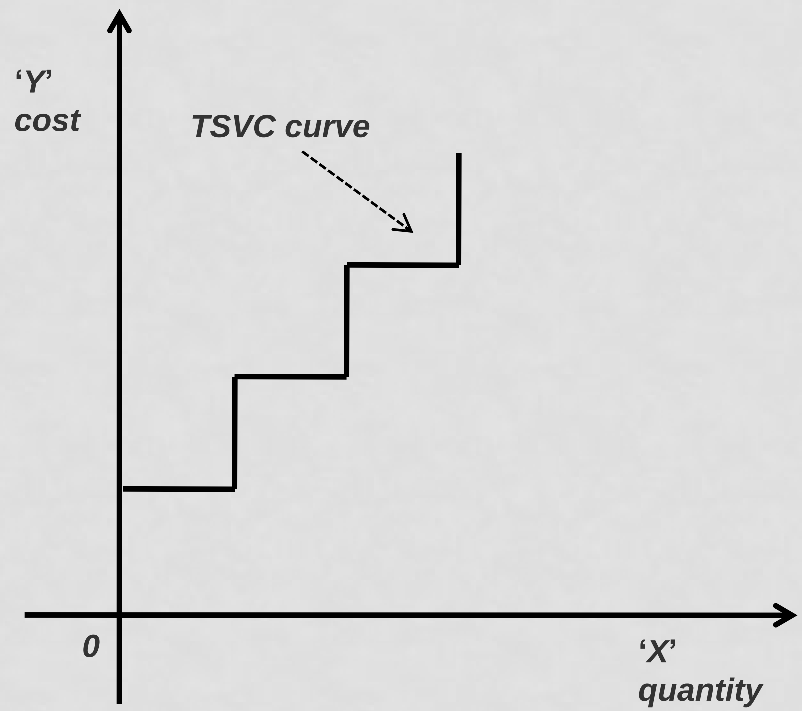
Normally, pure Variable or pure Fixed costs are rare to occur. Many costs always change in Total and they always change in Per Unit also.

| Semi Variable Costs | | |
|---|---|---|
| Quantity | Amount | Per Unit |
| 10,000 | 10,00,000 | 100 |
| 20,000 | 15,00,000 | 75 |

# SEMI VARIABLE




*Classical TSVC curve*




*Another TSVC curve*

# EXERCISE:
# SEGREGATE THE FOLLOWING COSTS INTO FIXED COSTS, VARIABLE COSTS AND SEMI VARIABLE COSTS

- Rent of the factory or office building
- Depreciation
- Raw material
- Salary of the foreman
- Salary of contract labor
- Payment to the software engineers
- Telephone bill
- Electricity bill
- Administration expenses

# PROFIT

- Revenue earned by the firm less expenses associated with the revenue earning activities

- Illustration: A trading firm buys 10,000 pieces of certain equipment in a financial year. Each costs Rs. 1,500 plus Rs. 100 towards transportation & duties. Out of these it sold 8,000 units for Rs. 1,800 each.

- Calculate the Profit

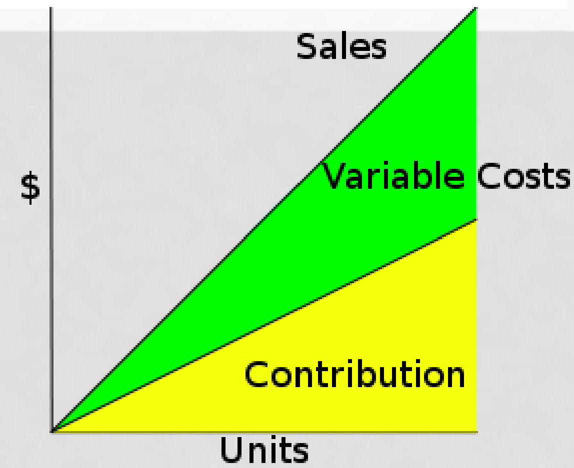
# CONTRIBUTION MARGIN

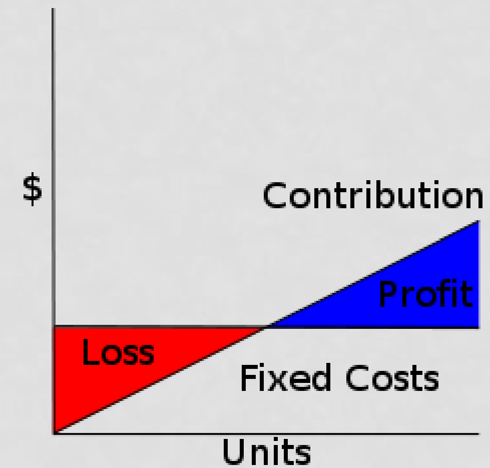
**Contribution Margin** is the **marginal profit per unit sale**.

The **Unit Contribution Margin** (C) is Unit Revenue (Price, P) minus Unit Variable Cost (V):

$$C = P - V$$

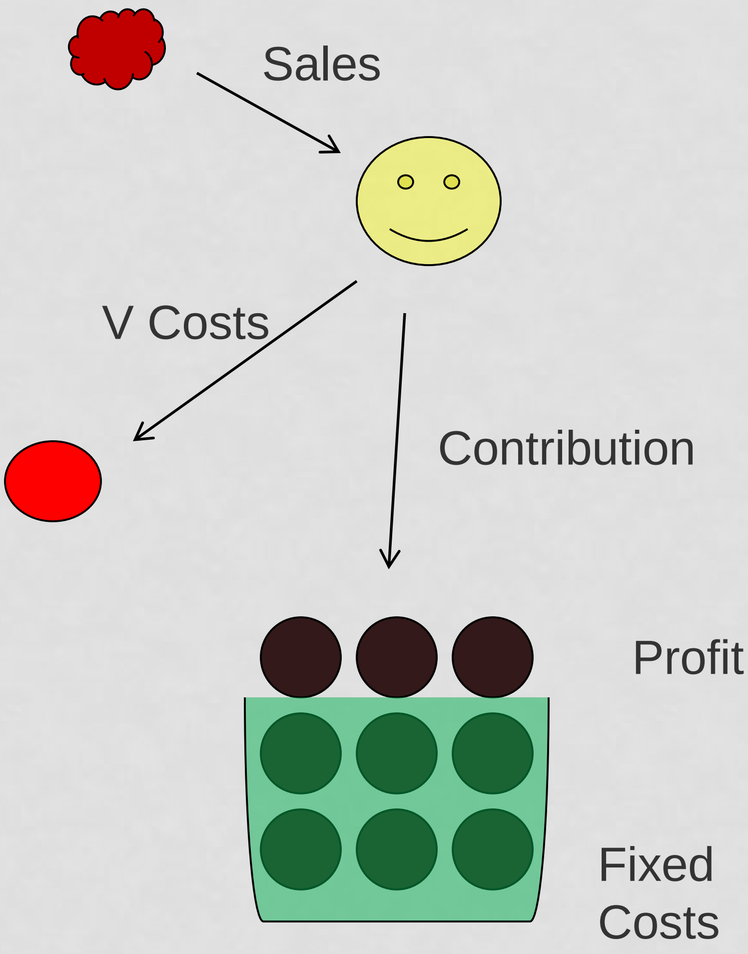
Contribution margin can be thought of as the fraction of sales that contributes to the offset of fixed costs.



# IMPLICATIONS

- Every unit sold does not give us profit, but it contributes to cover the fixed costs.
- Till the time fixed costs are not fully covered, there is a loss
- Excess of contribution over fixed costs = Profit



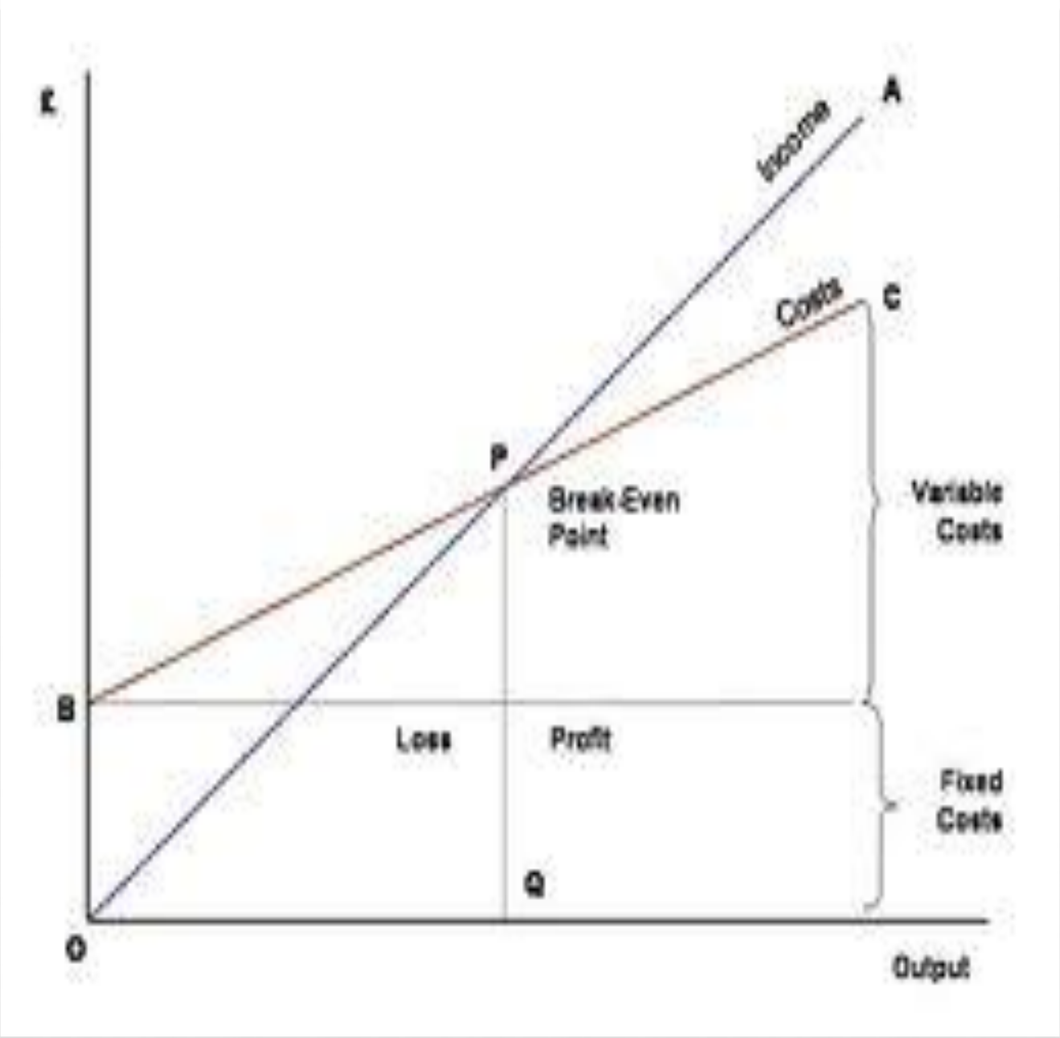
# BREAK EVEN ANALYSIS

- B E P = The point of no profit no loss
- B E Q = The point where total contribution is equal to the total fixed costs

- B E Q = $\dfrac{\text{Total Fixed Costs F}}{\text{Contribution per unit (P-V)}}$
- B E Q (target profit) = $\dfrac{\text{Total Profit +Total Fixed Costs}}{\text{Contribution per unit}}$
- B E Sales (Rs.) = $\dfrac{\text{Total Fixed Costs F}}{\text{1-V/P}}$

(P= Price; V= Variable Cost)

# BREAK EVEN ANALYSIS



# CALCULATE BE

- Fixed Cost of co is 280,000/-. Interest cost is 20,000/-. The unit selling price is Rs. 8/- and unit VC is 5/-. Find the BE Quantity
- What is the profit at 140,000 units?

# CALCULATE BE

| | |
|---|---|
| • Fixed Cost | 2,80,000 Plus |
| • Interest | 20,000 |
| • Total | 3,00,000 |

- B E Q = Total Fixed Costs F/ Contribution per unit (P-V)
  = 300000/ 3 = 100,000
- Profit(140,00 units) = (140000 – 100000) *3= 120,000

# CONTRIBUTION EXERCISE

- A company dealing in 4 products (full capacity – total 800,000 units), all of which are currently at 1/3rd of their potential demand. It is planning to totally discontinue Product C & D due to their seeming losses, and for using the spare capacity to produce more of A & B. Advise the management about the viability of the decision.

| Particulars | Product A | Product B | Product C | Product D |
|---|---|---|---|---|
| Sales units | 1,00,000 | 1,00,000 | 5,00,000 | 1,00,000 |
| Sales Amount | 60,00,000 | 60,00,000 | 80,00,000 | 20,00,000 |
| Variable costs | 45,00,000 | 42,00,000 | 20,00,000 | 9,00,000 |
| Fixed costs | 12,00,000 | 12,00,000 | 60,00,000 | 12,00,000 |
| (Allocated on the basis of output units) | | | | |
| Profit/(Loss) | 3,00,000 | 6,00,000 | Nil | (1,00,000) |

# IS THE MGT DECISION OPTIMUM?

**Since the fixed costs are 'allocated costs', they are irrelevant for decision making**

Current scenario

| Particulars | A | B | C | D | Total |
|---|---|---|---|---|---|
| Sales | 6000, | 6000, | 8000, | 2000, | 22,000, |
| (-) V Costs | 4500, | 4200, | 2000, | 900, | 11,600, |
| Contribution | 1500, | 1800, | 6000, | 1100, | 10,400, |
| (-) F Costs | | | | | 9600, |
| Profit | | | | | 800, |

Mgt Decision

| Particulars | A | B | C | D | Total |
|---|---|---|---|---|---|
| Sales | 18,000, | 18,000, | | | 36,000, |
| (-) V Costs | 13,500, | 12,600, | | | 26,100, |
| Contribution | 4,500, | 5,400, | | | 9900, |
| (-) F Costs | | | | | 9600, |
| Profit | | | | | 300, |

# IS THE MGT DECISION OPTIMUM?

| Particulars | Product A | Product B | Product C | Product D | Total |
|---|---|---|---|---|---|
| **Sales units** | 300 | 300 | 200 | 0 | 800 |
| **Sales Amount** | 18000 | 18000 | 3200 | 0 | 39200 |
| **Variable costs** | 13500 | 12600 | 800 | 0 | 26900 |
| **Contribution** | 4500 | 5400 | 2400 | 0 | 12300 |
| **Fixed costs** | 1200 | 1200 | 6000 | 1200 | 9600 |
| **Profit/(Loss)** | 3300 | 4200 | -3600 | -1200 | 2700 |
| **Price per unit** | 60 | 60 | 16 | 20 | |
| **VC/unit** | 45 | 42 | 4 | 9 | |
| **Contribution per unit** | 15 | 18 | 12 | 11 | |

# COSTS & BUDGETS

# PRINCIPLES OF BUDGETING

Budgeting model schematic


**INPUTS**

- Historic Financials – P&L, B/S
- Strategy, growth projections
- Headcount & productivity
- Cost structure

**BUDGET ENGINE**

- Business Budget
- Product Plans
- Target Productivity
- AO / Channel Plan
- Manpower Plan
- Org. Structure
- Operating Expenses
- Distbn. Expenses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# WHY BUDGETING?

Compels managers to plan

Promotes coordination and communication

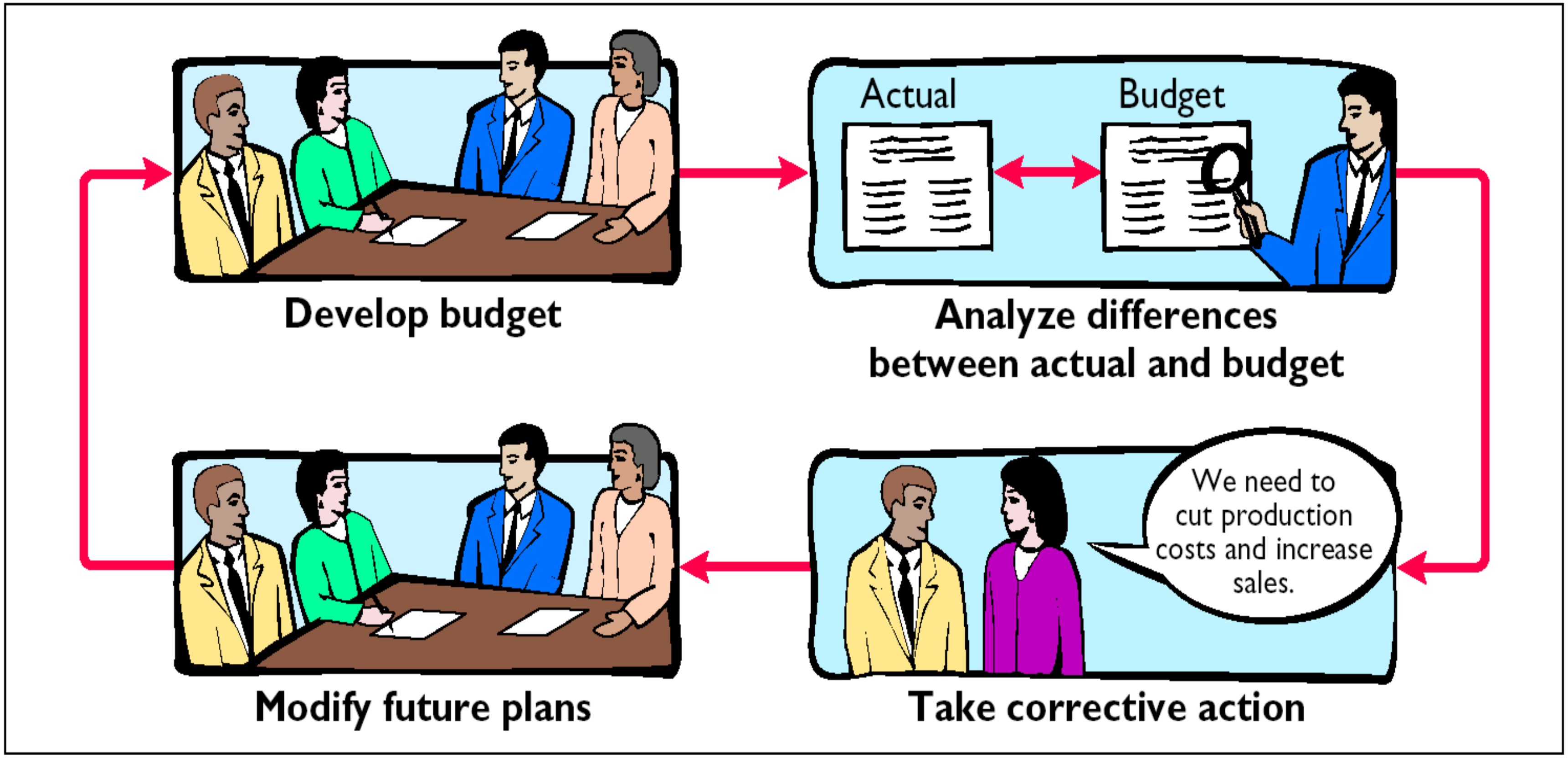
Helps managers evaluate performance

Motivates employees to achieve company goals

# How Budgeting?

- Align budgets to strategy & strategic initiatives
- Ensure that they are adequate resources to implement the key projects and initiatives which deliver on strategic initiatives - Many strategic objectives are not achieved as they were not budgeted for adequately and there was lack of funds
- Budgets should look at operationalisation of departmental objectives
- Budget must take into account market realities
  - Sales budget for the year must be broken to quarters and months
  - All quarterly and monthly budgets may not be identical
  - Accordingly monthly cost budgets must be aligned
- Budgeting process is to recognize responsibility centers

# Budgetary Control



# EXPENSES ALLOCATION

Principle of operating expense allocation

| | |
|---|---|
| **Size of Business** | • Allocation of opex based on size of business ratio<br>• Example: Director's fee, CEO & his office |
| **Headcount Ratio** | • Allocation of opex based on headcount ratio<br>• Example: Rental, Utilities |
| **Transaction Volume** | • Based on ratio of transactions associated with business |
| **Time Allocation** | • Based on time used of facility, service against capacity & cost |
| **Space utilized** | • Based on space such as utilities |

# COST SHARING PRINCIPLES ILLUSTRATIVE

## Tracking a challenge

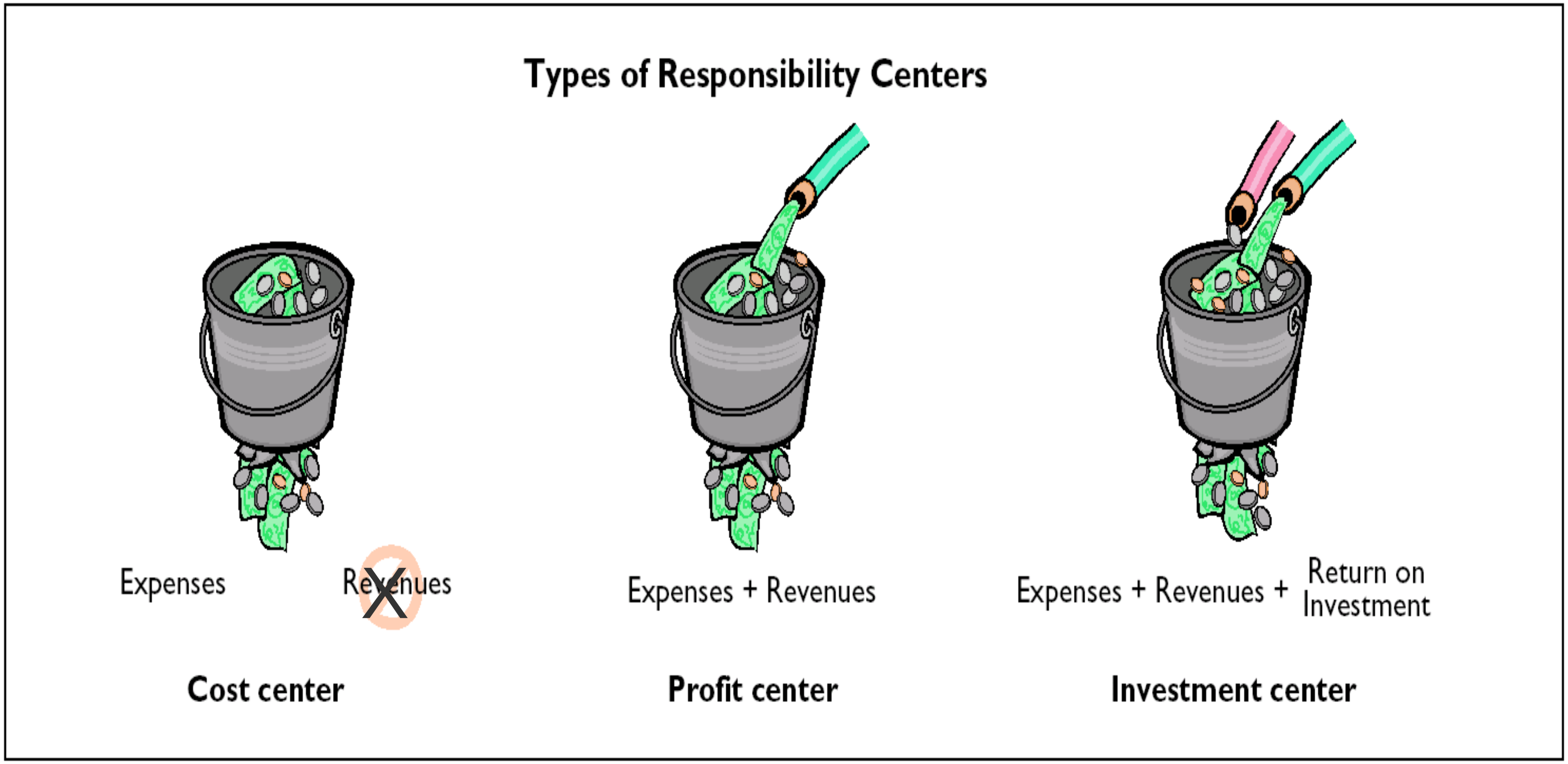
- Procurement costs-
- Inventory Holding costs-
- Manpower costs –
- Material Related –
- Premises costs –
- Utilities & communication –
- Transportation –
- Stationery –
- Entertainment –
- Admin/ other –
- Support services/Customer servicing/ business related –
- Area Office costs –

# COST SHARING PRINCIPLES ILLUSTRATIVE

**Tracking a challenge**

- Procurement costs- on actuals
- Inventory Holding costs- on actuals
- Manpower costs – on actuals or from total on size of business
- Material Related – direct allocation to products
- Premises costs – **size of business** or manpower, % space
- Utilities & communication – size of business or manpower, space
- Transportation – actuals, products (size of business)
- Stationery – actuals, size of business
- Entertainment – size of business
- Admin/ other – size of business
- Support services/Customer servicing/ business related – allocation on size of business
- Area Office costs – support different business Businesses allocation on size of assets, manpower, business

# Types of Responsibility Centers



# RESPONSIBILITY CENTERS

A sub-unit in an organization whose manager is held accountable for specified financial results.

Examples:

- *Cost center*: HR, Finance, IT, etc
- *Profit center*: SBU 1, SBU 2, SBU 3
- *Investment center*: Corporate TRY

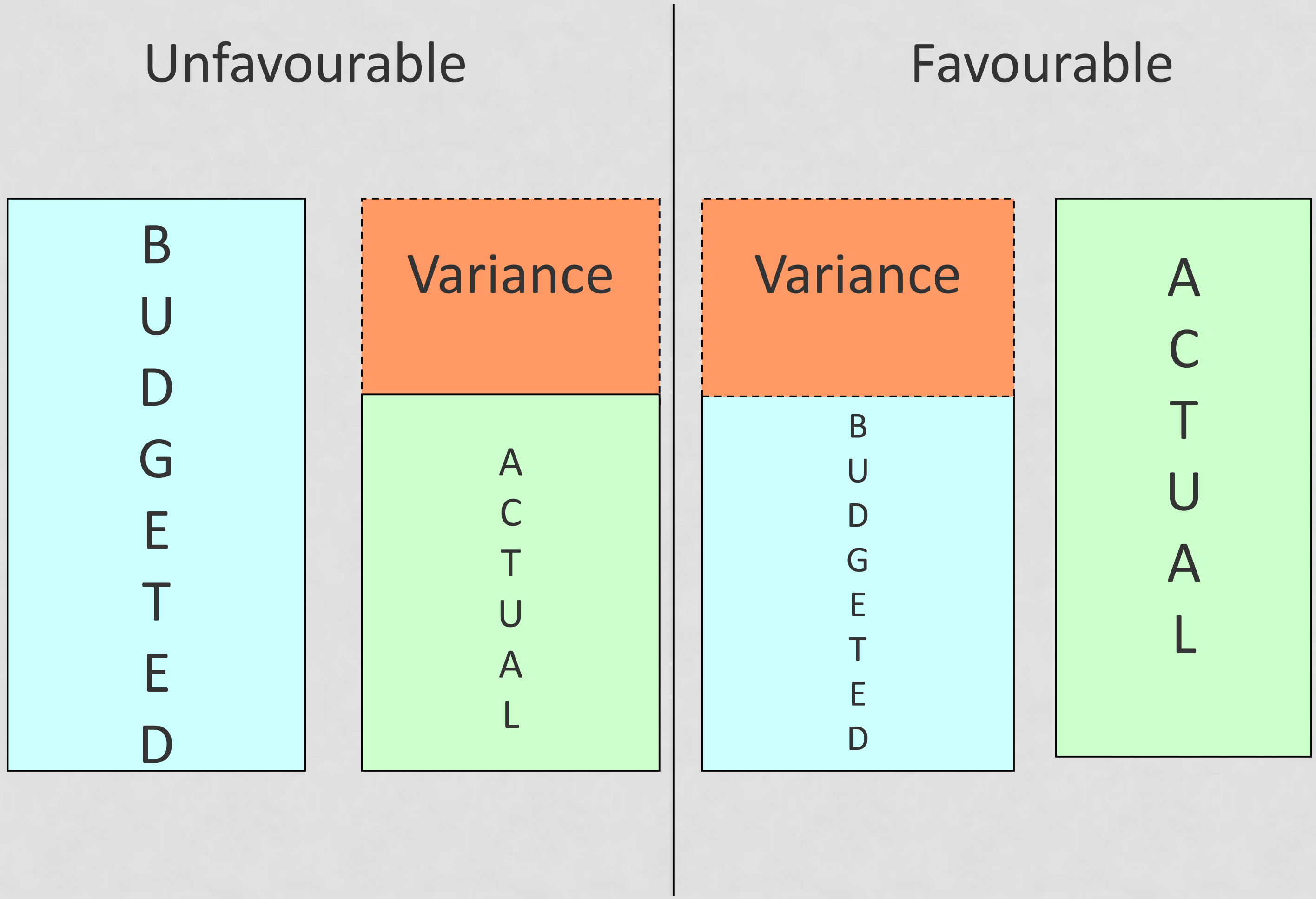
# RESPONSIBILITY ACCOUNTING SYSTEMS

❶ Prepare budgets for each responsibility center.

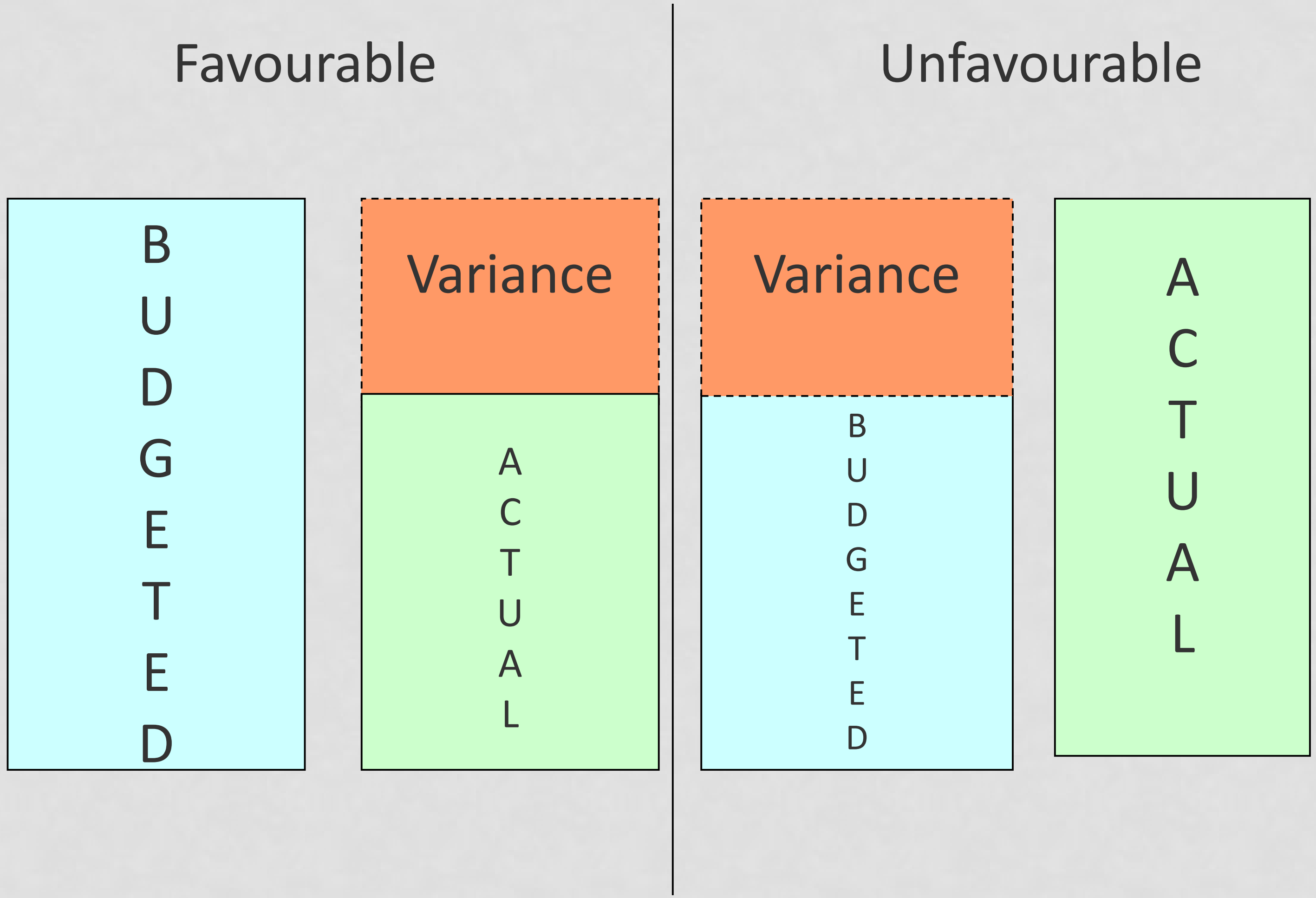
❷ Measure performance of each responsibility center.

❸ Prepare timely performance reports comparing actual amounts with budgeted amounts.

# VARIANCE ANALYSIS - SALES



# VARIANCE ANALYSIS - COSTS



# COST OF CAPITAL

# FIRM’S COST OF CAPITAL

- Capital is the money businesses use for financing their operations.
- A company's cost of capital is simply the cost of money the company uses for financing.
- If a company only uses current liabilities and long-term debt to finance its operations, then it uses debt and the cost of capital is usually the interest rate on that debt.
- Cost of Debt Capital = Coupon Rate on Bonds (1 - tax rate)
- If a company is public and has investors, then the cost of capital is the cost of equity. Usually, this type of company has debt but it also finances with equity financing or money that investors supply. In this case, the cost of capital is the cost of debt and the cost of equity.
- The combination of debt and equity financing for a company is the company's capital structure.

# FIRM'S COST OF CAPITAL

- Weighted Average of various sources
- Influenced by cost of each source
- Also, be weightage of that source in the overall capital mix
- WACC = $\sum W_i . C_i$

# QUIZ

- Using the data below calculate the cost of debt capital. Rate of interest: 12%. Tax Rate: 30%

a) 8.40%

b) 8.75%

c) 9.00%

d) None of the above

# QUIZ

- IF a particular project is going to be financed with 60% equity & 40% debt and the cost of equity is 14% and the cost of debt is 9%, what is the weighted average cost of capital?
  a) 11.5%
  b) 12.0%
  c) 11.2%
  d) None of the above
- If the tax rate is 10% what is the cost of capital?

# WORKING CAPITAL MANAGEMENT

# WORKING CAPITAL

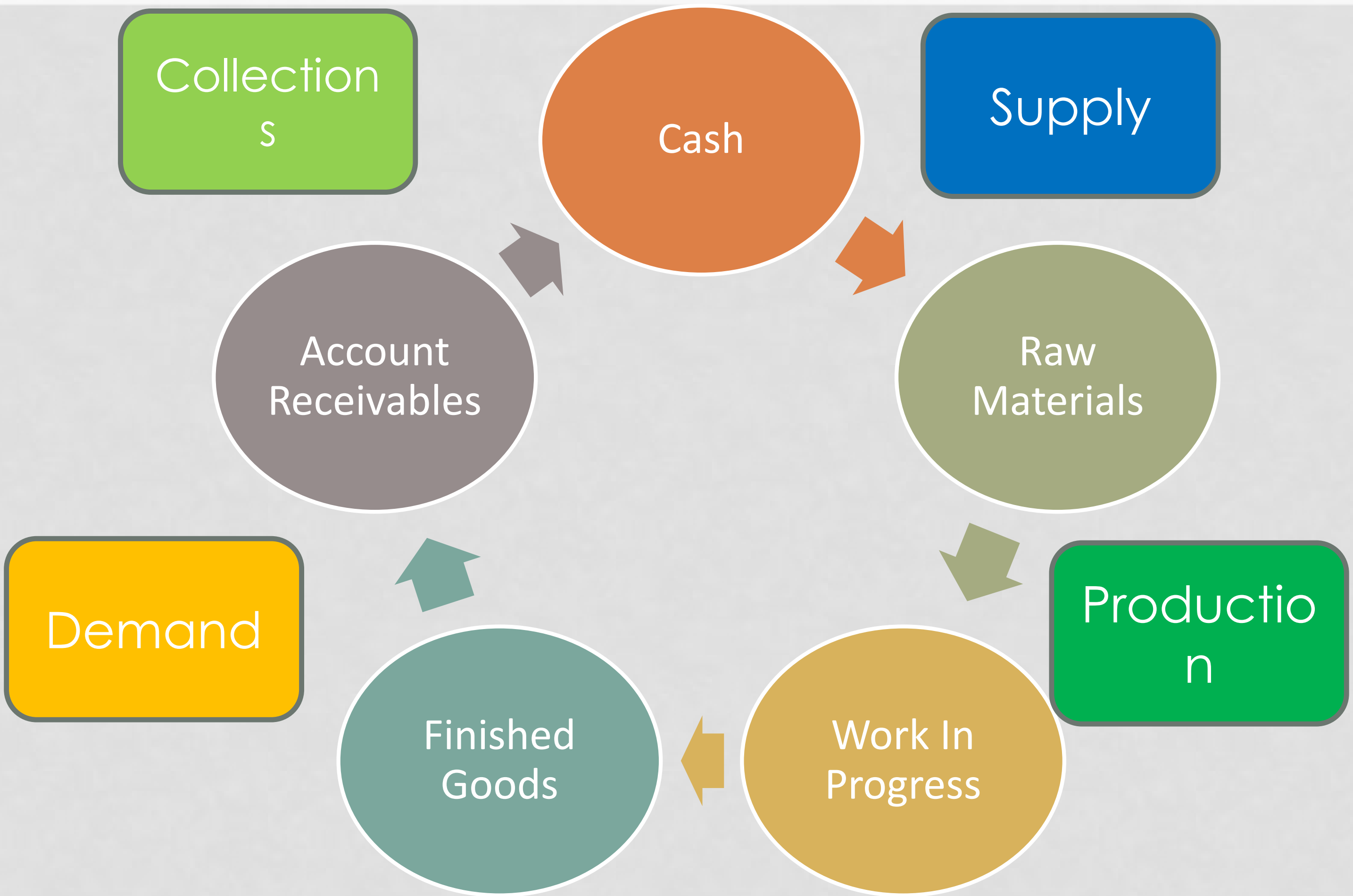
- "Rolling" money which forms a part of the money cycle.  It is the most dynamic component of the investment made in a firm

- The firm needs to invest into raw material, consumables to convert it into finished goods which gets converted into receivables and then into cash = Current assets (Gross working capital)

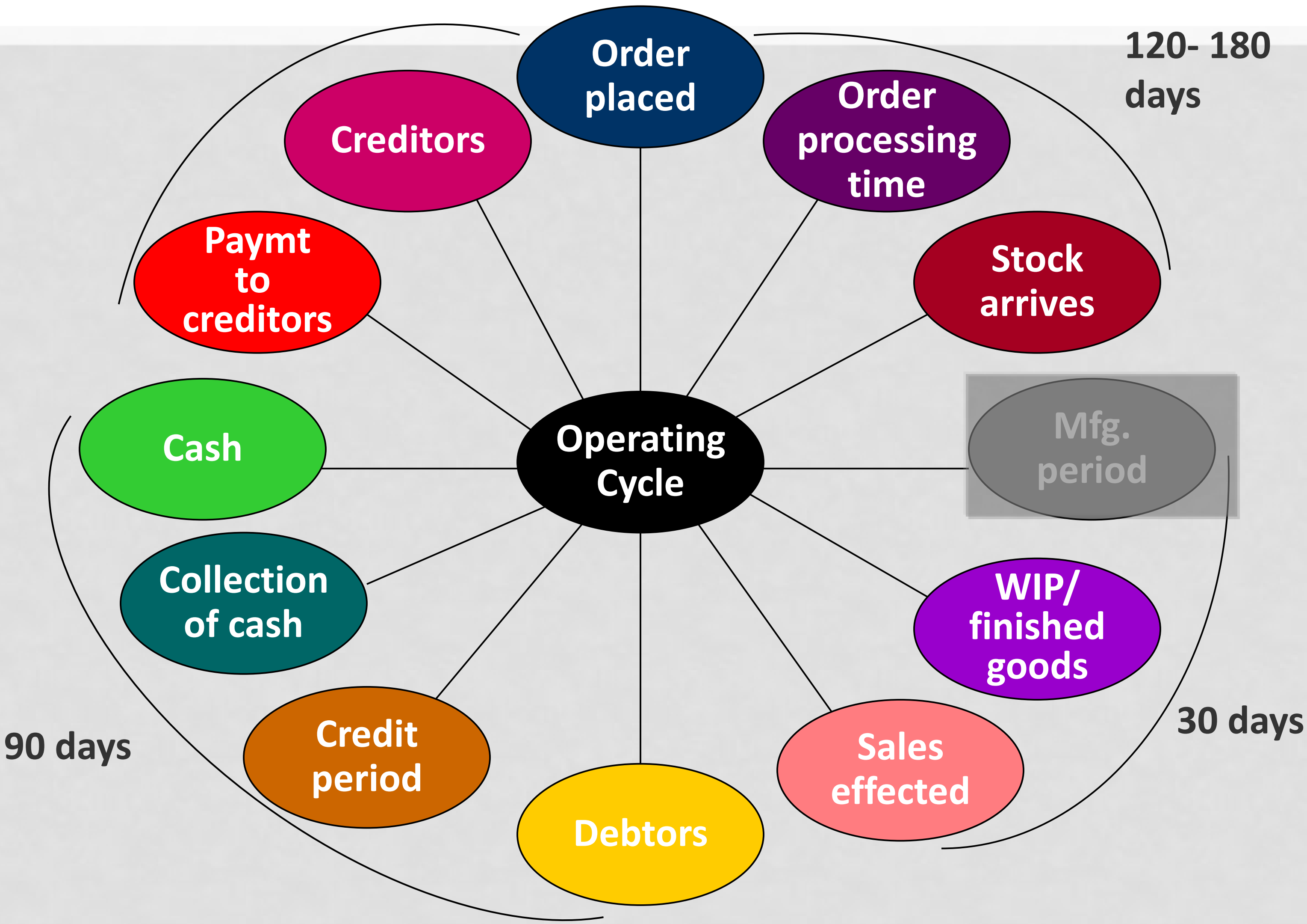
- The above are financed by way of current liabilities (creditors, bank borrowings)

- Current assets – Current liabilities = Working capital gap

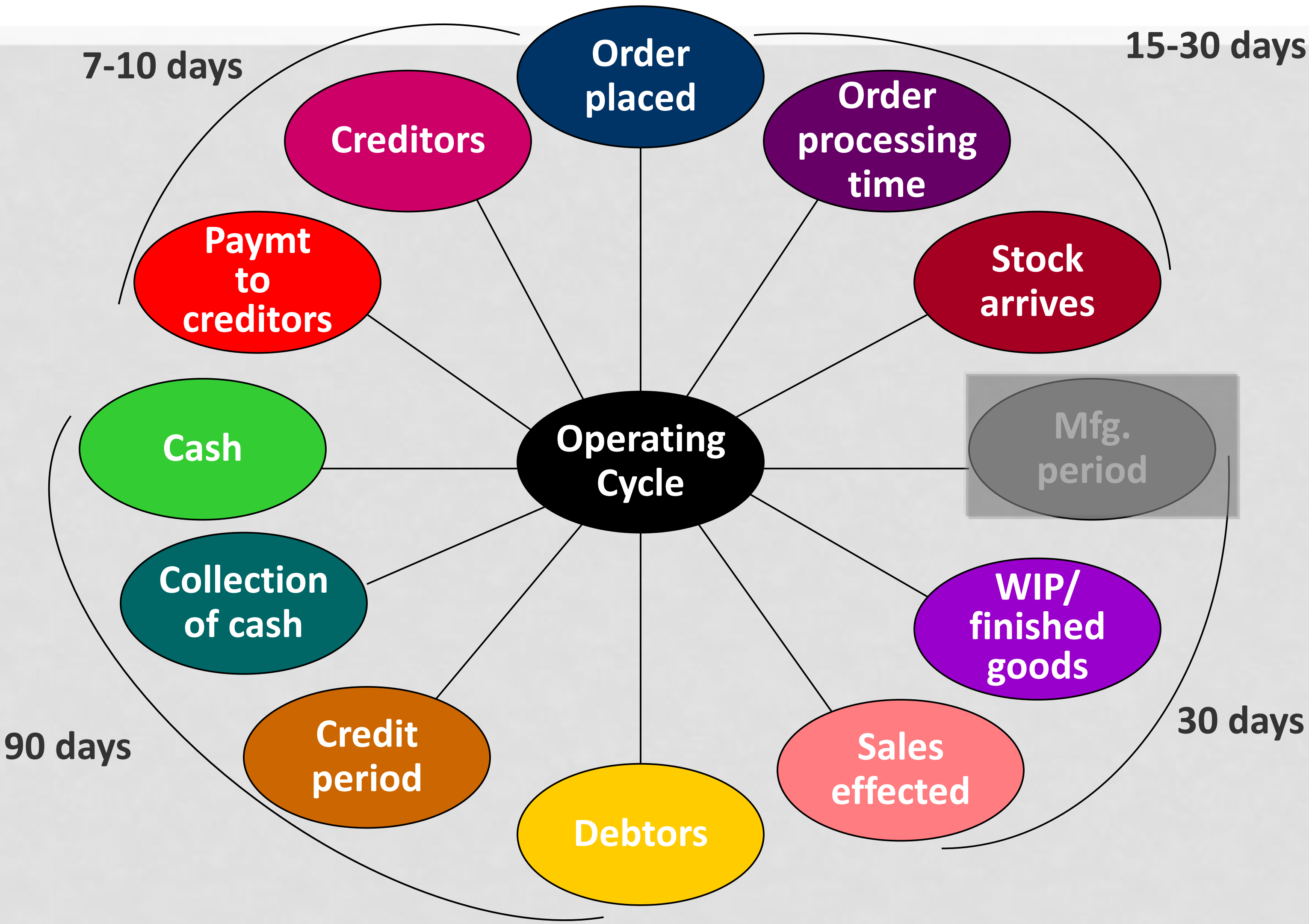
# THE OPERATING CYCLE



# Operating Cycle : USAID Products



# Operating & Cash Conversion Cycle : Others



# Cash Cycle :

1. Cash cycle = Operating cycle – Accounts payable
   135 – 7= 128 days.
2. Negative Cash cycle = a) Low operating cycle followed by high Accounts payable.
   105 - 120 = -15 days

# Factors influencing WC requirements :

Factors

- Operating cycle
- Terms of trade
- Nature of business
- Seasonality of operations
- Business cycle fluctuation
- Market competitiveness
- Credit policy
- Conditions of supply
- Increasing costs
- Distribution Cycle & Pipeline Inventories

# Factors influencing WC requirements :

**Credit Policy**
- Suppliers
- Customers

Market practices dictate the policy.

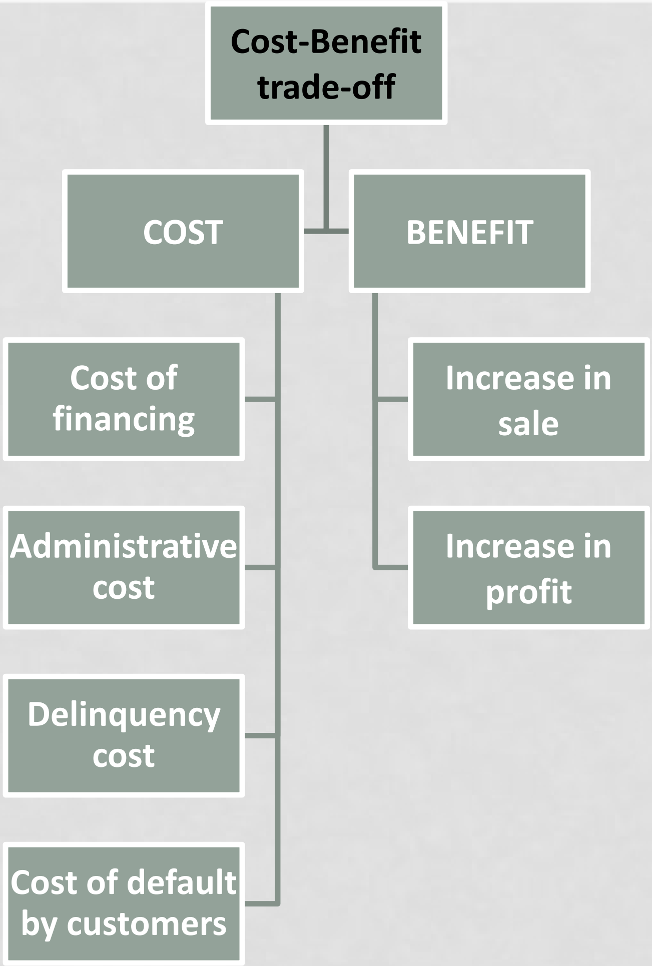
**Conditions of Supply**

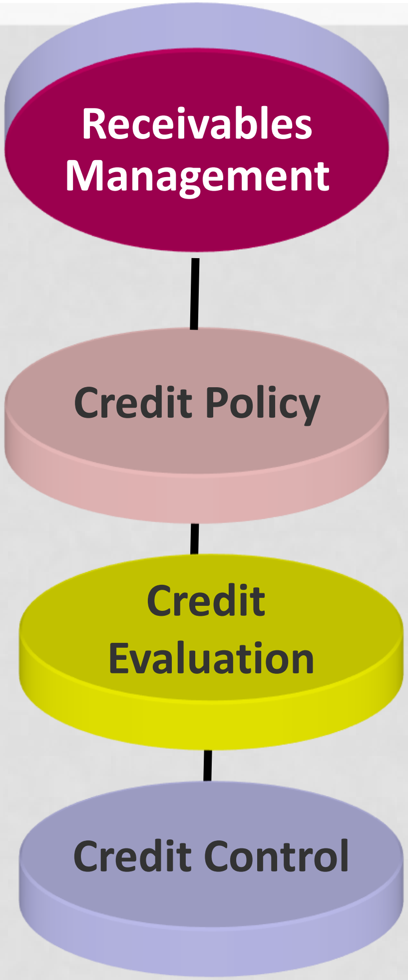
a) Prompt supply – Low W.C. - JIT
b) Unpredictable- High W.C.
c) Availability of Raw Material – Seasonal - agri

**NATURE OF BUSINESS**

| | |
|---|---|
| Service industry : | Low operating cycle – less of WC – however it is fixed assets intensive. |
| Transport corporation : | Low WC. |
| Retail/Trading firm : | High WC. |
| Manufacturing : | High WC – high fixed assets, selling on credit terms. Capacity utilisation is a cash flow driver |
| Financial Services : | Low WC – liquidity high. |

# Receivables have Cost as well as Benefit



# CASH DISCOUNT

- Annual Sales = 1000 cr
- 60 days credit period. Analysis only 50% in 60 days, bal 50% in 120 days, avg period = ?
- Assume - If 2/10 net 60 is offered, the current better behaved creditors will adhere to this. The 120 days wont change payment pattern
- Cost of borrowing is 15%

# CASH DISCOUNT

- Avg accounts receivable is 1000X90/365=246.58 cr
- With the  discount, 50% will reduce to 10 days = avg days receivables to 65 days = 178.08 cr
- Savings is 68.5 cr@10%= 6.8 crores
- Cost of disc = 0.5X1000X.02= 10cr

# CASE

- Sales 1000 cr, Cost of sales 80%, bad debt 1%, oppy cost of investment is 20%
- With Cash disc 2/10 net 30, sales expected to rise by 25% and bad debt down to 0.5% of total sales
- Currently, 50 % pay in 30, bal 60 days avg 45 days
- With cash discount, 70% will accept discount, bal 30% will pay in 60 days
- Is the proposal acceptable

# CASE

- Existing receivables 45 days=123.29 crores
- Avg collection period down to 25 days
- New receivables = 85.62 crores on sales of 1250 cr
- Funds released= 37.67 crores
- Profit on additional sales 20% on 250 cr=50 cr
- Opportunity savings in a/cs receivable=0.2X37.67 cr=7.53 cr
- Savings on bad debt losses=0.01X1000-.005X1250=3.75
- Less oppy cost of disc=0.02X1250X0.7=17.5

# Inventory Management

- An integral part of a firms operations, requires considerable investment.
- Constitutes 25-30% of the total current assets of any Company.
- Maintaining the level of inventory is like maintaining the level of water in a bath tub with an open drain.
- Levels of inventory may remain the same but the items can keep changing.

- Purpose of carrying inventory is to uncouple functions of production, purchase & selling to ensure that delays do not affect the production & sales activities.
- Production shut downs result in increased costs & possible delay in deliveries, with a chance of losing the customers.
- Management and control of inventory is an important dimension

# INVENTORY MANAGEMENT

- Inventory management is primarily about specifying the size and placement of stocked goods.

- Inventory management is required at different locations within a facility or within multiple locations of a supply network to protect the regular and planned course of production against the random disturbance of running out of materials or goods

# REASONS FOR KEEPING INVENTORY

- The three main reasons for keeping inventory by companies are as follows:

✓ Time factor
✓ Uncertainty
✓ Economies of Scale

# Types of Inventories

- Finished goods, WIP, raw materials.
- Levels of finished goods is maintained to uncouple the production & sales function.
- Purpose of maintaining WIP is to uncouple the various operations in the production process so that machine failures & stoppages in one operation will affect the other adversely.
- It uncouples the production function from the purchase function.

# Techniques of Inventory Management

- Need to evaluate –

  a) Whether all the items of inventory are equally important?

  b) What should be the size of each order?

  c) At what levels should replenishments take place?

# Techniques of Inventory Management

- ABC Analysis.
- EOQ Model
  - Reorder level
  - Safety stock
  - Qty. discounts & order qty.
  - Just-in Time (JIT) Inventory

## Trade-off in Inventory is fairly clear :

Too high inventory → Substantially high carrying cost which will drag down the value of the firm

Too small inventory → Loss of sale opportunity and higher ordering cost

**Maintaining optimum inventory is the key**

# Costs of Inventory

**a) Carrying Costs :**

| | |
|---|---|
| Cost of Storage | Rent of space occupied, cost of people employed, infrastructure.<br>E.g.- air-conditioning, cost of insurance, pilferage, warehousing, handling etc. |
| Cost of Financing | Funds invested, opportunity cost, implicit cost of interest on credit purchases, explicit cost of financing in the form of interest. |

**b) Cost of Ordering – logistics, freight, min order size**

**c) Cost of Stock-outs (a hidden cost) :**

- Stock out of finished goods leads to loss of sale and the customer.
- Lower profits.
- Loss of goodwill and reputation.
- Stock-out of raw materials – WIP can stop production process.
- Result in unabsorbed cost of labor and overheads.

# ABC ANALYSIS MODEL

- The **ABC analysis** is a business term used to define an inventory categorization technique. It is also known as *Selective Inventory Control*. Policies based on ABC analysis:
  - A items : very tight control and accurate records
  - B items : less tightly controlled and good records
  - C items : simplest controls possible and minimal records

# ABC ANALYSIS MODEL

- The ABC analysis suggests that inventories of an organization are not of equal value. Thus, the inventory is grouped into three categories (**A, B, and C**) in order of their estimated importance.
  - '**A'** items are very important for an organization. Because of the high value of these 'A' items, frequent value analysis is required.
  - '**B'** items are important, but of course less important, than 'A' items and more important than 'C' items. Therefore 'B' items are intergroup items.
  - '**C'** items are marginally important.

# ABC ANALYSIS MODEL

- There are no fixed threshold for each class - 'A' items typically account for a large proportion of the overall value but a small percentage of number of items.  (e.g. 20% of the items accounts for 70% of the annual consumption value of the items)

# EOQ MODEL

- EOQ is the quantity to order, so that ordering cost + carrying cost finds its minimum
- Assumptions:
  - Relatively uniform & known demand rate
  - Fixed item cost
  - Fixed ordering and holding cost
  - Constant lead time

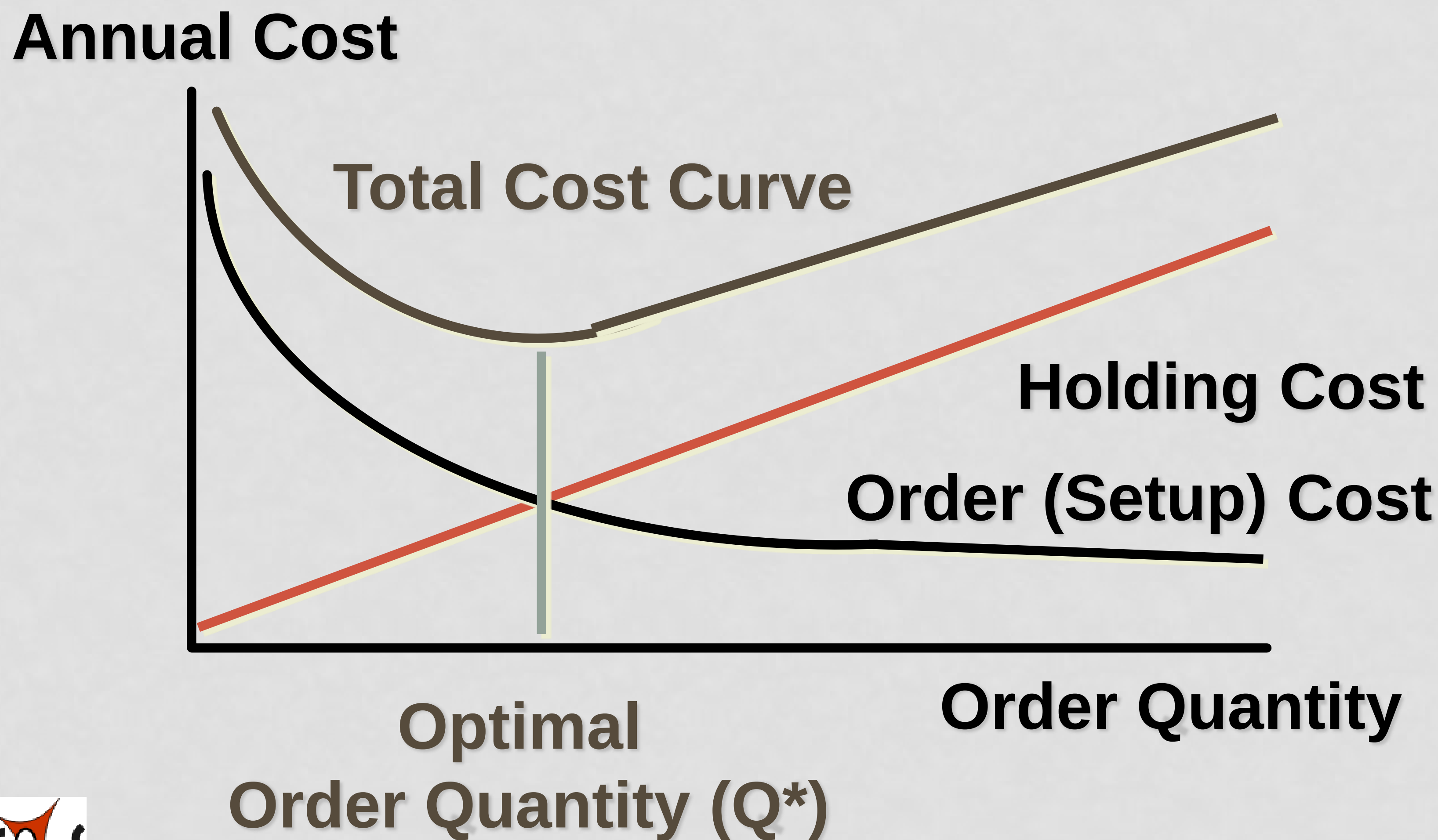
# EOQ MODEL

- Re-order Level - The **reorder point** ("ROP") is the level of inventory when an order should be made with suppliers to bring the inventory up by the Economic order quantity ("EOQ").
- The two factors that determine the appropriate order point are the **delivery time stock** which is the Inventory needed during the lead time (i.e., the difference between the order date and the receipt of the inventory ordered) and the **safety stock** which is the minimum level of inventory that is held as a protection against shortages due to fluctuations in demand.
- Reorder Point = Normal consumption during lead-time + Safety Stock .

# EOQ MODEL

- Transaction cost ‘C’ per order
- Total demand for stock ‘D’ per period is known
- Quantity per order ‘Q’
- Holding Cost per annum ‘H’
- EOQ approach to minimize TC = HXQ/2=CXD/Q

# EOQ MODEL



Annual Cost
Total Cost Curve
Holding Cost
Order (Setup) Cost
Order Quantity
Optimal
Order Quantity (Q*)

# EOQ

| Qty per order | No of order per year | Ordering cost | Avg Inventory (units) | Holding cost (Rs) | Total Cost (Rs) |
|---|---|---|---|---|---|
| 7200 | 1 | 1200 | 3600 | 10800 | 12000 |
| 3600 | 2 | 2400 | 1800 | 5400 | 7800 |
| 2400 | 3 | 3600 | 1200 | 3600 | 7200 |
| 1800 | 4 | 4800 | 900 | 2700 | 7500 |
| 1440 | 5 | 6000 | 720 | 2160 | 8160 |
| 1200 | 6 | 7200 | 600 | 1800 | 9000 |
| 900 | 8 | 9600 | 450 | 1350 | 10950 |
| 720 | 10 | 12000 | 360 | 1080 | 13080 |

- C=1200, H=3, Annual demand D=7200 units
- Q=under root (2CD/H)

# QUICK QUIZ

- Activity-based costing
- Budgeted cost
- Direct and Indirect Cost
- Fixed, Variable and Semi variable Cost
- Contribution margin
- B E P
- B E Q
- B E Q (target profit)
- B E Sales (Rs.)
- Responsibility centres
- Cost of capital
- Working Capital
- Inventory
- Techniques of Inventory management
- Costs of Inventory
- ABC Analysis
- Reorder Point
- EOQ

# GLOSSARY: COSTS- TERMS AND DEFINITIONS

- **Activity** An activity is a specific task, process or function that converts **inputs** (resources) into **outputs** (goods or services).
- **Activity-based costing** Activity-based costing (ABC) is a costing method used to assign costs associated with inputs to the production of goods and/or services (outputs). **Outputs** are measured in **unit costs**, which is the average cost of producing one unit of a good or service and may be goods, services, activities etc. ABC can be used with either the **top-down** or **bottom-up approach** to estimating unit costs.
- **Actual cost** An actual cost is a cost that has been *incurred* (i.e. historical costs).
- **Bottom-up approach** The bottom-up approach builds standard unit costs based on standard level of inputs and standard input prices, rather than using actual levels of inputs or prices. This approach is a forward-looking costing method as the development of standard unit costs consider current/best practice, activities, cost drivers and service level specifications.

# COSTS- TERMS AND DEFINITIONS

- Budgeted cost A budgeted cost is a cost that is planned and is usually estimated from a predefined level of activity or output.
- Cost A cost is the rupee value of a resource that is used to achieve a specific objective. Costs are measured in the conventional accounting manner, that is as monetary units that must be paid for a good or service.
- Cost driver A cost driver is a factor that has an effect on costs (either immediately or over a given time span), e.g. the level of activity or the volume of goods produced or services rendered.
- Costing Costing is the process used for determining the cost of performing a given activity, e.g. manufacturing a good, rendering a service or performing a function. Costing involves the detailed analysis of all costs associated with service delivery, including mapping service processes and activities and determining their costs.

# COSTS- TERMS AND DEFINITIONS

- Direct cost A direct cost is a cost that is easily traceable to a particular cost object.
- Direct worker A direct worker spends the majority of their time working with the clients in a service.
- Economies of scale Economies of scale occur as unit costs decrease in response to increases in the level of activity or output of an organisation.
- Effective service hours Effective service hours are the working hours for direct-client activities excluding weekends, public holidays, all types of leave, training and non-client related activities
- Establishment cost An establishment cost is an up-front capital and/or operating cost that is incurred to set up the provision of a new good or service or expand the provision of an existing one. They may be classified as direct or indirect costs

# COSTS- TERMS AND DEFINITIONS

- Financial cost Financial costs are costs that have a monetary (rupee) value.
- Fixed cost A fixed cost is a cost that does not change in response to changes in the level of activity or output in the short term.
- Full cost attribution Full cost attribution is the identification of all costs incurred by an agency on the cost object; this includes all direct costs and indirect costs. These costs are also referred to as fully distributed costs.
- Indirect cost An indirect cost is a cost that is not easily traceable to a particular cost object, generally because the cost is associated with more than one cost object.
- Overhead cost An overhead cost is a type of indirect cost associated with support services that contribute to the operation of goods or service provider. These costs can be significant and need to be allocated to cost objects.
- Semi-fixed cost A semi-fixed cost is a cost that has both fixed and variable components in that the cost is fixed up to a certain level of activity or output, but once that level is exceeded the cost becomes variable. In other words, the cost is variable in steps
- Unit cost A unit cost is the cost of providing one unit of a good or service. It is calculated by dividing the total cost of providing a good or service (inputs) by the level of activity or output. Unit costs include fixed, semi-fixed and variable costs. They may be calculated for a particular service delivered by either a single provider or all providers in the sector.

## MODULE 2

# PRICING

# TOPICS FOR DISCUSSION

**MODULE 2 : PRICING**

Module 2.1: Determine Market Positioning

Module 2.2: Develop Marketing Strategy

Module 2.3: Evaluate Product Price Relationship

Module 2.4: Assess external / environmental factors

Module 2.5: Align with the Product Lifecycle

Module 2.6: Assess Internal Factors

Module 2.7:  Determine pricing

Module 2.8: Re-assess & Alter Pricing

# UNDERSTANDING OUR AUDIENCES IS ESSENTIAL FOR THE HEALTH OF ALL NONPROFITS

- The external environment is increasingly turbulent, unstable, changing
- Constituents and supporters want more control, and loyalty cannot be assumed
- Informal networking is less reliable as source for money, volunteers, publicity
- Public policies are changing
- Demands for accountability are rising
- While some nonprofits are paying attention to such changes, most are not

# WHAT IS MARKETING?

- “Marketing is the function of a nonprofit whose goal is to plan, price, promote, and distribute the organization’s programs and products by keeping in constant touch with the organization’s various constituencies, uncovering their needs and expectations for the organization and themselves, and building a program of communication to not only express the organization’s purpose and goals, but also their mutually beneficial want-satisfying products.” (Philip Kotler)

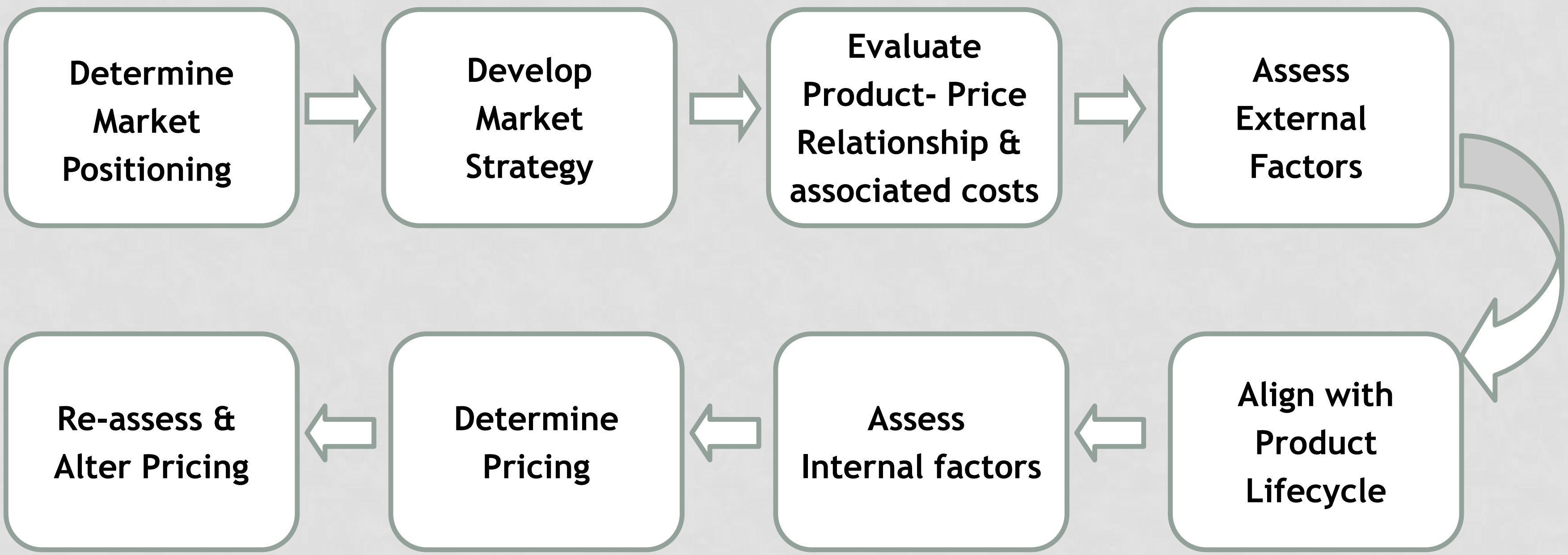
# BENEFITS OF GOOD MARKETING

- Greater consumer satisfaction
- Increased consumer participation
- Better attraction of resources
- Stronger donor, staff and volunteer loyalty
- Greater efficiency and effectiveness of services
- Stronger organization

# PRICING CHALLENGES FOR NOT FOR PROFITS

- A big challenge to the widespread use of pricing strategies among not-for-profits is the **low orientation to costs.** In developing their pricing strategies, several not-for-profits discover that their charges were at or below the actual costs of the services.
- Even if the prices are kept below cost for increasing outreach,  it is important to know and determine the appropriate price which covers all costs incurred.
- Price determination in the not for profits needs to take into account the value being offered and the reference point their price is going to make for similar services

# PRODUCT PRICING



# MARKET ANALYSIS

Market Size → Market Growth Rate/ Profitability → Key Customer Segments → Competitor Analysis → Market Trends → Key Success Factors

- Analyse Market Landscape
  - Market size-(current and potential)
  - Market growth rate
  - Market profitability
  - Industry cost structure
  - Distribution channels
- Identify Customer Segments
- Identify Key Product/ Services offerings
- Understand Key Players/Competitors and their positioning/market shares
- Identify Market trends
- Identify Key success factors

# MARKET ANALYSIS

Market Size → Market Growth Rate/ Profitability → Key Customer Segments → Competitor Analysis → Market Trends → Key Success Factors

Market Size → Market Growth Rate/ Profitability → Key Customer Segments

**Market size**

- Sales Volume/Value

**Sources-External**

- Government data
- Trade associations
- Financial data from major players
- Customer research

**Sources-Internal**

- Sales Team
- Technical- Customer Interface
- Management teams

**Market Growth**

- Study growth drivers such as demographics/ sales growth in primary products & our industry
- Extrapolate historical data into the future.
- Construct a product diffusion curve - analyse stages in which your product is adopted by different customer sets during the life cycle of our product

**Market Profitability**

- Active and potential customer base
- Industry benchmarks

**Industry Cost Structure**

- Benchmark against industry costs/ efficiencies

**Distribution channels**

- Direct/Dealers
- Others

**Define and Quantify Segments**

- Industry
- Company size
- Location – geographical cluster
- Benefit Segments- Product use (s) by the industry
- Buying behaviour
  - Frequency of purchase
  - Average order size
- Buyer/Seller relationships

# MARKET ANALYSIS

Market Size → Market Growth Rate/ Profitability → Key Customer Segments → Competitor Analysis → Market Trends → Key Success Factors

**Competitor Analysis** → **Market Trends** → **Key Success Factors**

- **Identify Competition**
- **Collate information** *
  - Overall sales- revenue/volumes by market & by main brand
  - Cost structure
  - Market shares (revenues and volumes)
  - Organisation structure & leadership profile
  - Distribution channels
  - Customer perception
- **Assess competitors strategies, strengths & weaknesses**
- **Assess competitors response to our actions / promos**

- **Macro Trends**
  - Economic
  - Political
  - Environment
  - Technology
  - Social
- **Customer Trends**
  - Changing Profile /Geographic
  - Changing Consumption -including substitution
  - Changing Distribution preferences
  - Trends in customer industry
- **Industry Trends**
  - Changing production processes & technology
  - Changing inputs & supplier power
  - Competitors, market share & new entrants

- **Establish business/project goals**
- For each goal**, identify areas of business/ project activities essential to achieve the goal**
  - Industry CSF's resulting from specific industry characteristics;
  - Strategy CSF's resulting from the chosen competitive strategy of the business
  - Environmental CSF's resulting from economic or technological changes; and
  - Temporal CSF's resulting from internal organizational needs and changes

# MARKET ANALYSIS

- **Sources for Competition Information Collation**

| **Recorded Data** | **Observable Data** | **Opportunistic Data** |
|---|---|---|
| Annual report & accounts | Pricing / price lists | Meetings with suppliers |
| Press releases | Advertising campaigns | Trade shows |
| Newspaper articles | Promotions | Sales force meetings |
| Analysts reports | Tenders | Seminars / conferences |
| Regulatory reports | Patent applications | Recruiting ex-employees |
| Government reports | | Discussion with shared distributors |
| Presentations / speeches | | Social contacts with competitors |

# NEED GAP ANALYSIS

NEED GAP ANALYSIS

- Opportunity assessment
  - –Identify unmet customer needs, pain points- observe through usage behaviour
  - –Identify currently un-served and under-served customers (segments, locations)
  - –Assess current maturity level in market – learn from need evolution map of evolved and older markets
  - –Contextualize with technology and market trends
- Align with company strategy and operating strengths
  - –Assess internal resources- human & capital- to harness the opportunity
  - –Assess organisational competency and capability
  - –Assess fitment with overall organisation strategy and objectives
- Identify target customer segments
  - – New customers- new regions within the country/ new countries going forward
  - –Sales growth from existing customers
- Identify product and service offerings
  - – New applications / New products

# VALUE PROPOSITION

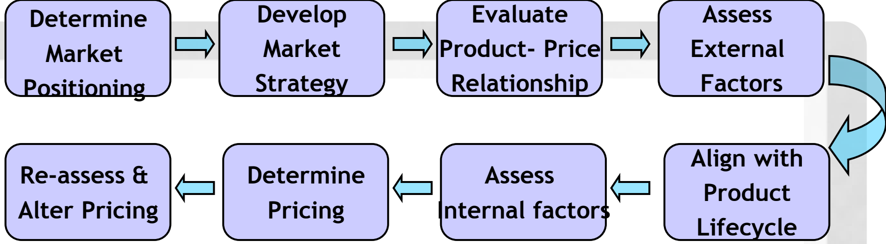
## PRODUCTS CAN BE COPIED, VALUE PROPOSITION CANNOT

- **VALUE PROPOSITION** is a succinct statement that describes why a customer should buy your product- it consists of the sum total of benefits you promises a customer will receive in return for the associated payment
- Create value proposition
  - Know your targeted customers and both their obvious and less apparent needs - understand what is seen as 'value'
  - Know the competitors propositions and clearly differentiate on parameters of perceived value
  - Determine 'BSI Company-Specific Value'
  - Clearly articulate company-specific value to target customer segments: revenue-enhancing, cost-reducing, and benefits associated with your solution

# VALUE PROPOSITION

## PRODUCTS CAN BE COPIED, VALUE PROPOSITION CANNOT

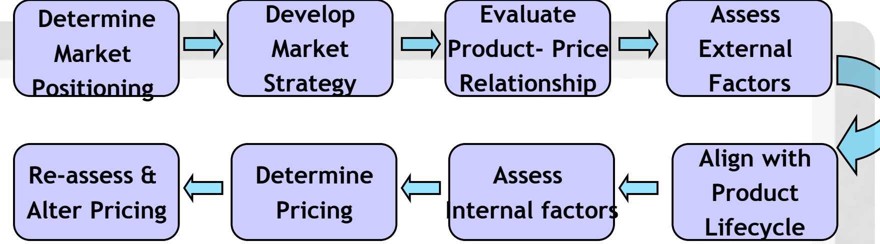
- Create and regularly update compelling content for target audience. Communicate proposition through
  - Sales collateral - White papers and brochures
  - Website content & development
  - Executive presentations and videos
  - Bylined articles
- Ensure delivery of proposition promise




# PRODUCT PRICING

PRODUCT PRICING

1. **Determine Market Positioning -** perform marketing analysis, segmentation, targeting, and positioning
2. **Develop Marketing Strategy -** define the product, distribution, and promotional tactics
3. **Evaluate Product Price Relationship**
   - Understand the price sensitivity / demand curve - how quantity demanded varies with price
4. **Assess external / environmental factors**
   - Type of market – pure competition, monopolistic, oligopolistic
   - Consumer perceptions of price and value
   - Competitor’s costs, prices and offers
   - Economic conditions
   - Government and legal considerations




# PRODUCT PRICING

PRODUCT PRICING

## 5. Align with the Product Lifecycle

- Prices to be aligned with the four major life cycle phases : launch, growth, mature and declining.

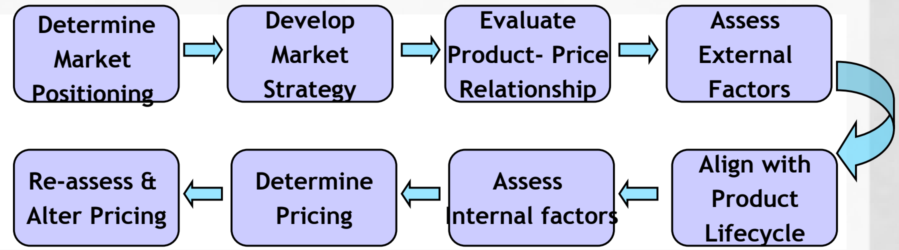
  *Launch Price* - Generally high, assuming a skim pricing strategy for a high profit margin as the early adopters buy the product and the firm seeks to recoup development costs quickly. In some cases a penetration pricing strategy is used and introductory prices are set low to gain market share rapidly

  *Growth Price* - Maintained at a high level if demand is high, or reduced to capture additional customers

  *Maturity Price* - Possible price reductions in response to competition while avoiding a price war

  *Decline Price* - Prices may be lowered to liquidate inventory of discontinued products. Prices may be maintained for continued products serving a niche market

# PRODUCT PRICING

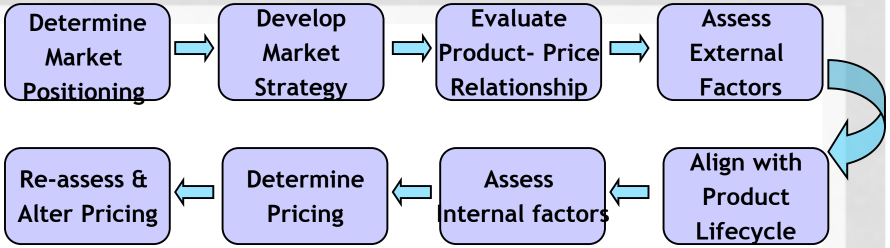



PRODUCT PRICING

## 6. Assess Internal Factors

- Determine Costs
  - Include fixed and variable costs associated with the product
- Set Price Objective- Chose one of the following aligned to business plan
  - **Current profit maximization** - to maximize current profit,
  - **Current revenue maximization** - to maximize current revenue with no regard to profit margins.
  - **Maximize quantity** - to maximize the number of units sold
  - **Maximize profit margin** - attempts to maximize the unit profit margin
  - **Achieve set profit goals**
  - **Quality leadership** - use price to signal high quality in an attempt to position the product as the quality leader

# PRODUCT PRICING



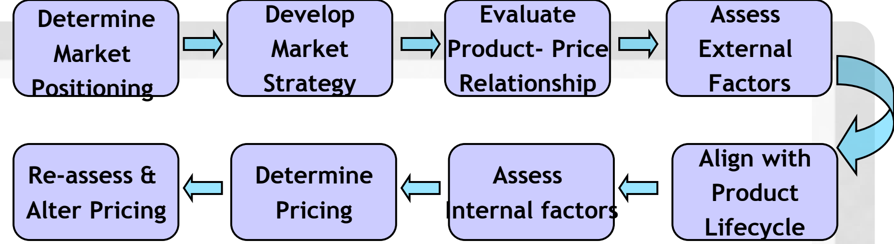

PRODUCT PRICING

## 7. Determine pricing

Using information collected in steps 1-6, select a pricing method, develop the pricing structure, and define discounts

- **Cost-plus pricing** - set the price at the production cost plus a certain profit margin.
- **Target return pricing** - set the price to achieve a target return-on-investment
- **Value-based pricing** - base the price on the effective value to the customer relative to alternative products
- **Psychological pricing** - base the price on factors such as signals of product quality, popular price points, and what the consumer perceives to be fair
- **Versioning**- set differential pricing offering varying but closely-related versions of a product or service at different price points.
- **Bundled services / Memberships**
  Organizations that provide a range of services or programs might provide several different packages or 'bundles' to develop a market for under-utilized programs. Membership programs, for the right organization, can offer a reduced per-visit or per-transaction cost for the client while creating a long-term relationship for the nonprofit.

# PRODUCT PRICING

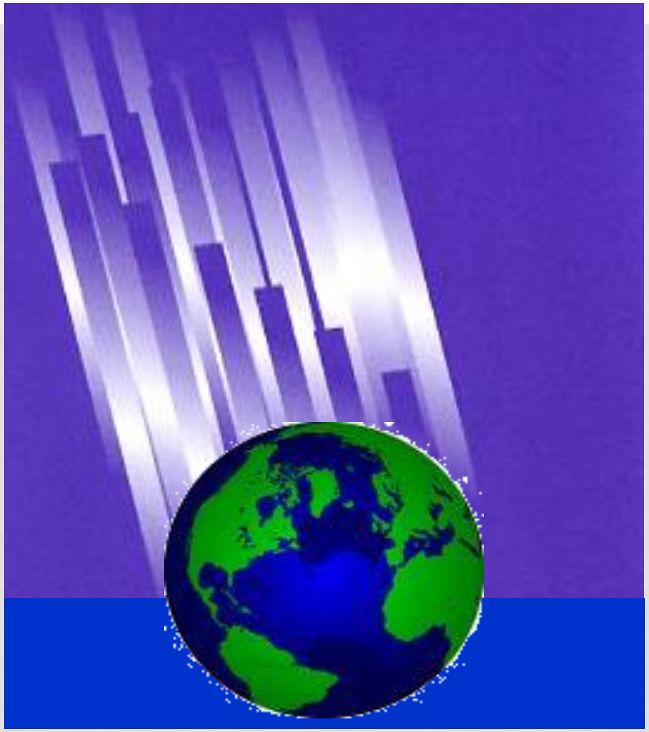



PRODUCT PRICING

## 7. Re-assess & Alter Pricing

- Reassess when
  - Changes in economic conditions
  - Change in competitor's prices
  - Changes in supply and demand
  - Changes in production costs
- Increase / Reduce price
- Offer Discounts and Coupons

# Success



*The Kairos: That moment in which vision, bold action, and opportunity converge to realize extraordinary accomplishment."*

Kairos

# WHY BUDGETING

Compels managers to plan

Ensure that they are adequate resources to implement the key projects and initiatives which deliver on strategic initiatives

Promotes coordination and communication

Promotes coordination and communication

Helps managers evaluate performance

Motivates employees to achieve company goals

Kairos

# VARIANCE ANALYSIS

# RESPONSIBILITY ACCOUNTING SYSTEM

An accounting system that provides information . . .

Relating to the responsibilities of individual managers.

To evaluate managers on controllable items.

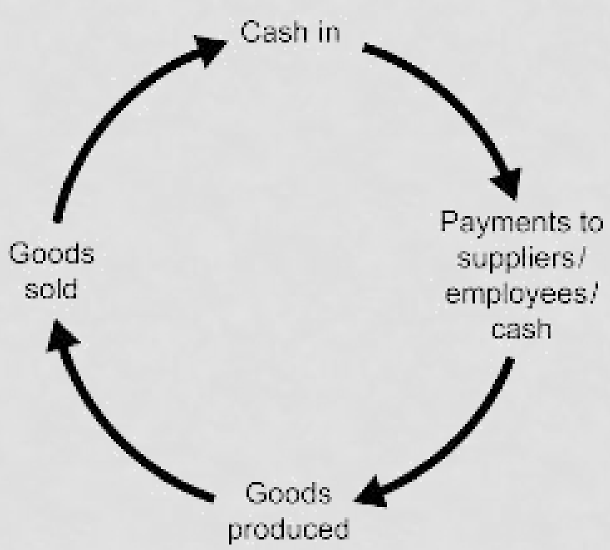
# RATE OPTIMIZATION

- Costs must be correctly assessed when quoting for a contract
- The implications of Octroi, CST, other local taxes must be factored in when arriving at a price
- Hence it is important to understand upfront where the good is being sold, where the product is manufactured, where it is stored and how the movement will take place as this will lead to different taxes. Besides cost, there are cash flow implication
- The impact is both for the flow of sales and flow of raw materials (purchase)
- The implementation & implication of logistics must clearly be thought through

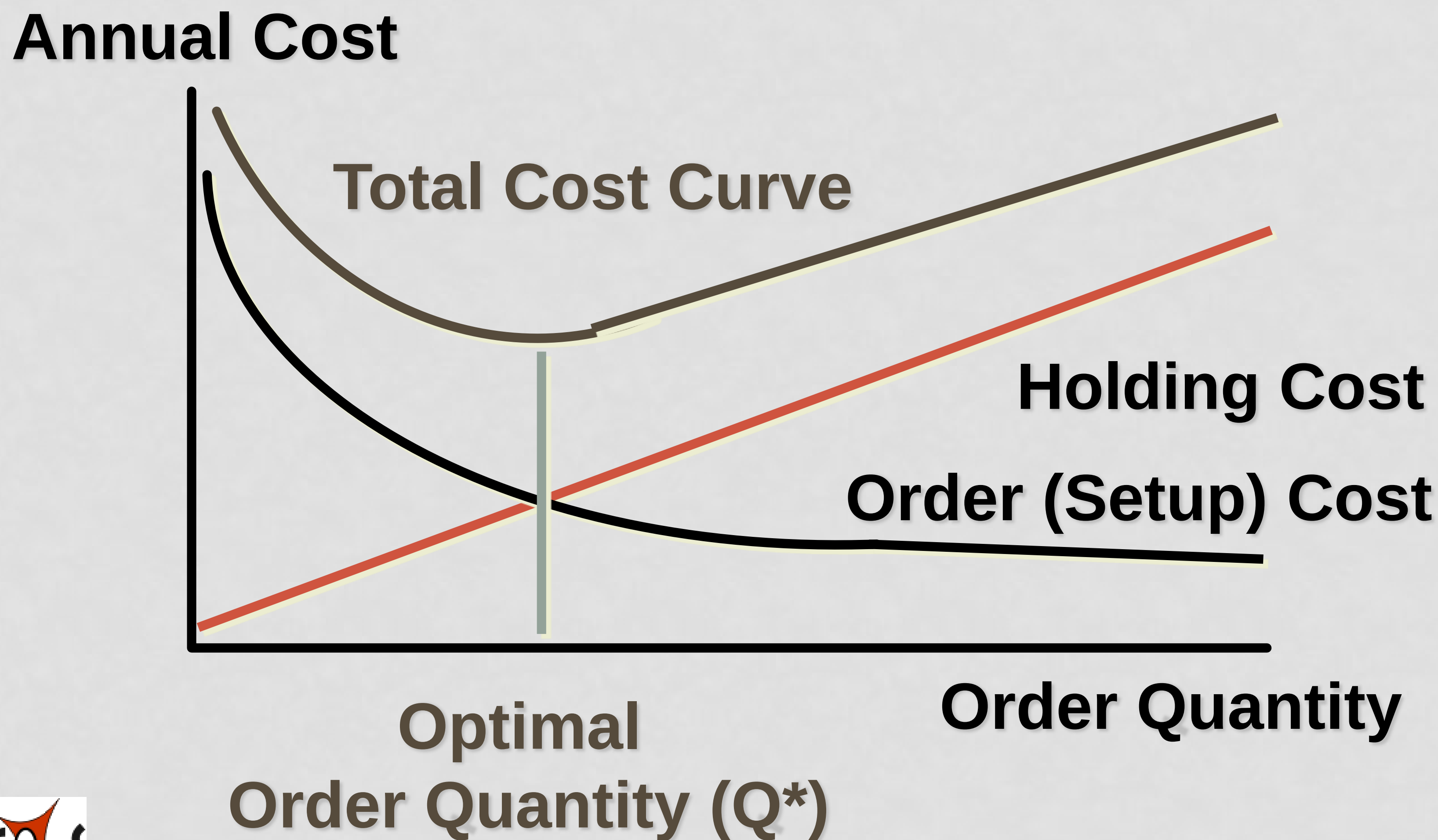
Kairos

# RESPONSIBILITY ACCOUNTING SYSTEM

- One of the most important things in running an organisation is to ensure that there is adequate cash flow to meet all of the short-term obligations.
- Working capital is the short-term capital that works for the organisation. This includes stock, work in progress, payments to suppliers and receipts from customers. By working your cycle more efficiently, cash is more readily available to use in other parts of the organisation.
- Working capital management involves the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash.



# EOQ MODEL


Annual Cost
Total Cost Curve
Holding Cost
Order (Setup) Cost
Order Quantity
Optimal
Order Quantity (Q*)

# HIGH LEVEL MARKETING PROCESS

**Market Analysis** → **Need Gap Analysis** → **Value Proposition** → **Product Pricing**

| Market Analysis | Need Gap Analysis | Value Proposition | Product Pricing |
|---|---|---|---|
| **Frequency** | **Frequency** | **Frequency** | **Frequency** |
| • Annually | • Annual | • Annual | • Dynamic- min Quarterly |

- Market Intelligence- Ongoing

# COMPANY IS A SUBSET OF THE INDUSTRY

Economy

- Understand economic indicators: GDP growth, interest rates movements.
- Establish co-relation

Industry

- Co, being part of industry, will face industry trends such as cycles, maturity, substitutes
- Product is derived demand as is an input raw material for most industries
- To follow trends in the end user industries

Firm

- Firm must be above avg player in the industry
- Must distinguish itself on cost/ market leadership, quality, service, supply chain, reach