POWERFUL WAYS TO "START A NEW BUSINESS"

VOL: II

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1. Six Ways To Price Your Product

Simply speaking, the price of a product or a service is its monetary value at which it is offered for sale in the market.

The price of a product is arrived at after intensive deliberations and brainstorming based on data and information pertaining to various areas. These areas include costing, profit margin, competition, market dominance, customer demographics and customer behavior and so on. By looking at these areas, it can be easily inferred that pricing is not just based on statistics but also on analysis and strategies. This article shall attempt to highlight some of the most important considerations in determining the price of a product/service.

1. Pricing Approach and Strategies

Pricing decisions are guided by a pricing approach or strategy which provides businesses a sense of direction in the process of price determination. Pricing strategies depend upon the nature of the product, demand and supply, marketing goals and the status and position of the business enterprise in the market.

When there’s a demand in the market for high-end products or the products come with a strong USP, companies usually adopt premium pricing policy. The other important prerequisites for premium pricing are the presence of market demand and absence of close substitutes.

When the competition is intense and products are homogenous, companies go for penetration pricing where the prices are set relatively lower than the prevailing rates in the market with the objective of attracting customers and quickly capturing market share.

Economy pricing is very helpful where price sensitivity is a major influencing factor. In economy pricing, companies adopt a no-frills approach and costs are kept to the minimum.

New innovative products are often offered at high prices at the introductory stages before competing substitutes are launched in the market. This practice is known as price skimming and businesses try to extract the most out of the novelty of a product.

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2. Costing

No business would desire to sell their products at anything less than what it had cost them to make the goods available for sale going through the value-chain process. Costing mainly comprises of two parts – fixed cost and variable cost, which collectively forms the total cost. Total cost divided by the number of units produced gives the cost per unit. Thereafter, a profit margin is added to the cost per unit to arrive at the final price of a product. However, the price of a product cannot be determined only by its costing and desired profit margin. There are other factors like prices of competing products, price sensitivity, brand value, regulatory framework etc. which are discussed below. However, cost-based pricing provides a standard base or a starting point for business enterprises to get closer to the final price.

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3. Competition and Competitors' Prices

In the absence of competition and presence of a substantial market demand, a business enterprise can aim to assume the role of a market leader. Although this does not give them a free hand in fixing the prices of their products and services at will but with a reasonable pricing policy they can easily recover the costs and earn a healthy profit margin.

In the presence of competition, a business enterprise cannot fix the prices of its products and services without taking into consideration the prices at which its competitors are offering the same goods and services under the same conditions. But while considering the competitor's pricing it is also relevant to take into account the degree of similarity with the competitors in terms of market share, production

technology, value-chain process, distribution network, skills and expertise of workforce, process management, and brand status. A business enterprise cannot just price its products at par with its market competition without considering the strengths of the competitors. It is relevant to figure out the ability, flexibility and strategies of competitors in the pricing of their products.

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4. Market Share and Dominance

A dominant player or a market leader enjoys a certain degree of flexibility in the pricing of their products. A dominant customer base is an indication of extensive operations, wide distribution network, economies of scale and brand loyalty. Because of this dominance, a market leader can stretch the prices of their products. Players with smaller market share do not have this vantage point. However, the market challengers, who are as good as the market leader as an organization and in terms of capabilities and competitiveness, engage into fiercely aggressive price wars with the market leader to capture more and more market share. Market followers, on the other hand, tend to play safe and avoid price confrontation. Niche players adopt a focused approach to target a very small and specific market segment. This gives them the liberty to charge premium prices for their high-end products and services.

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5. Customer Behaviour – Price Sensitivity

Price elasticity refers to the degree of change in the demand for a product resulting from a small change in its price and it constitutes a very important element of customer behavior. That is why homogenous products offered for sale under the same marketing conditions are priced at the similar levels. However, business enterprises constantly try to differentiate their products from that of its competitors by altering the other elements of the marketing mix like promotional activities, delivery and distribution, product development etc. This helps them to decrease customers' sensitivity to prices and price their products competitively.

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6. Regulatory Framework

Companies cannot fix the prices of their products and services arbitrarily. There are laws and regulations governing business practices (also covering pricing) which have to be adhered to. The regulatory framework aims to ensure fair competition and prevent unfair trade practices in business. In the telecom sector, it was seen that even free services are bound by the rules and regulations of TRAI.

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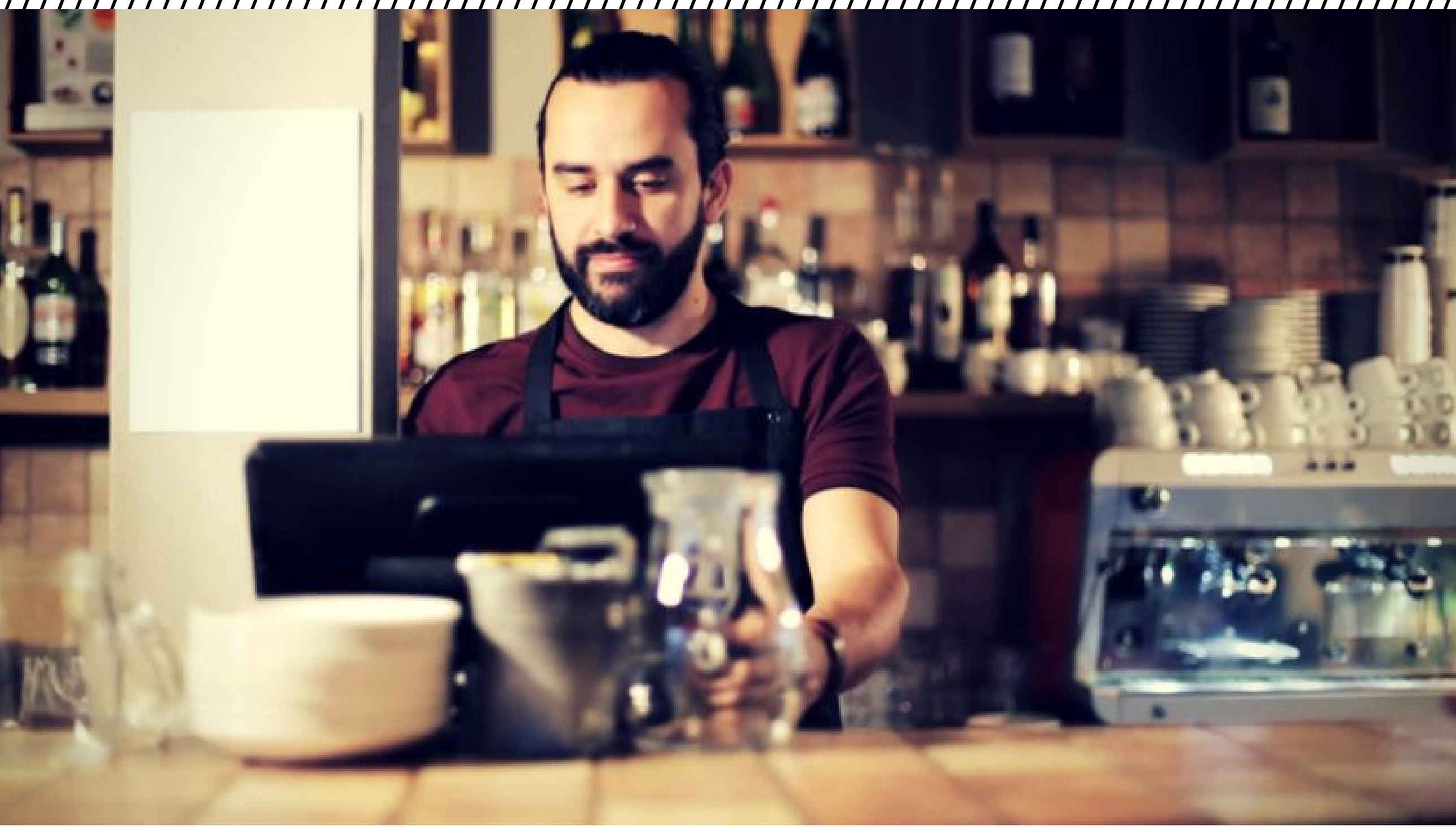
The process of determination of the prices of products and services involve consideration of several internal and external factors which include business strategies, level and nature of competition, nature of products and services, costing, brand and positioning, customer behavior and so on. Everything at once may make this process look like an uphill task but a systematic, logical step-by-step approach can help a business get closer and closer to an appropriate price zone.



2. Do I Take Franchise or Start My Own Business?

One of the proven ways to manage your life and earn is by starting your own business. For many of us, the perks of entrepreneurship are hard to resist. After numerous sessions of brainstorming and re-reinventing the possibilities, a day comes when you have an idea and ready to take the big plunge!

Now when you are confident enough to take a step forward, the big question which comes to everyone's mind is the type of business you want to be in. Specifically, you will need to decide whether to start an independent business or a franchise. For many 'to be entrepreneurs' this is a very tricky situation and there is no straight or simple answer. Evaluating the factors, discussion with your family, assessing the realities and getting an idea of the pros and cons of the 2 approaches is possibly the best way out. The key difference in franchise vs own business is safety/support and flexibility/independence. Since there are countless business models present today, this article specifically talks about a 'quick restaurant business model' and attempts to figure out what's the difference between a franchise and owning a business along with their features and advantages of the both which can assist you to choose the best business model for you.

A. Franchise business

Following this approach, entrepreneurs acquire the rights to open and run a location for a brand or a larger company. There is a contractual agreement with the franchisor and a franchise, wherein the franchise is the operator of the location and

The franchisor makes the decision about the product lines and other variables.

An example would be McDonald’s or KFC.

B. Independent Business

As the name suggests,

It’s mostly a sole proprietorship business wherein the owner owns the entire business, right from inception to daily operations and taking business decisions.

Here the risk factor along with profit margins is higher if compared with a franchise business.

Factors Affecting your Decision

1. Cost

For an entrepreneur, overcoming the initial financial hiccups is the biggest challenge and hence it affects your decision for acquiring the type of business.

In a franchise business, though the upfront investment is low as compared to an independent business, in the later stages obliging the requirements of the franchisor can be costly. Franchisor holds the key relating to further expansions and re-branding of the business.

The operating cost along with investments is a bit higher in an independent ownership; however, an owner has the liberty to plan the investment decisions depending upon the current financial condition.

2. Brand Value

Starting a franchise business under a renowned brand can be beneficial and helpful in terms of creating a market and save the cost of advertisements and promotions which an independent business has to incur during the initial days of the business. On the flip side, by any chance,

If the franchise does anything which results in spreading negative publicity, it can harm the overall business, and in the worst case scenario, ruin the business as well.

Independent operators have to create their own brand value by the virtue of the quality of food and delivering a seamless customer service and creating a friendly atmosphere around the place.

3. Business Model

In terms of opening a restaurant business, a franchise model has some advantages over the independent approach.

The assistance you get from the franchisor for selecting the place, setting up the ambiance, training, and support along with the recognition gives you a perfect launch pad to start your journey.

On the other hand, traditional business has the freedom to get a perfect site, change a strategy if they find it’s not appealing to the customers, and have the liberty to modify their services according to the changing needs and preference of their customers. Therefore, if a franchise has the peace of mind, an independent business has the power to operate freely.

3. Three Biggest Failures of the “Startup Era”

Of all the startups that come into existence, only a handful of them makes it to its next five-years. It may sound a bit cold but that also gives us a strong reason to prepare better for the future. This article highlights a few startup fiascos to help entrepreneurs and managers relate the basics of business management with real-life examples. The common thread in these businesses was that they were all internet-based and could not survive for too long. These failure stories also signify the role of startup business consulting in providing professional and experience-based guidance to budding entrepreneurs.

1. ZuperMeal

ZuperMeal was a Mumbai-based app and website based home-delivery service of home-cooked food from nearby places. It was founded in July 2016. The innovative service was based on connecting consumers with home cooks/chefs. The home-delivery food venture was funded by celebrity chef Sanjeev Kapoor and it also raised funds from other foreign investors in October 2015. The fund raised was close to the tune of Rs.13 Crores. But the company had shut down within a year of coming into existence. Here’s our assessment of what possibly might have gone wrong with ZuperMeal.

ZuperMeal looked like a great platform for homemakers and for those who have a passion for cooking and intending to take it up as a profession or a business. But for the customers, the only USP was that they were getting home-cooked food. Customers would seek home-made food under very limited conditions. Some of these are –

- When they are away from home
- When they cannot or don’t want to cook at home for some reason
- Special occasions

The first category shows promise in terms of the size of the market segment. Although statistics of customer demographics support urbanisation people who are located away from their home (students, working professionals etc) would look for a more permanent solution like setting up their own kitchen and cooking on their own or hire tiffin or dibba services for different reasons like economy and timeliness.

The second and third category scores low on the frequency of need for home-cooked food. People often prefer restaurants for special and rare occasions which deliver quality food albeit at higher prices (people don’t mind paying higher prices for their fancy food on rare occasions).

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How many people would have preferred ZuperMeal over regular tiffin or dibba services which also provide home-cooked food and are also easily available in prominent and growing cities?

2. Fashionara

Fashionara was a Bangalore-based online fashion and lifestyle e-tailer. The company was founded in 2012 with a funding of $4 million in Series A. The company offered fashion and lifestyle products of several brands through its app and web-based platform. It registered net sales of INR 32.86 crores in the financial year 2014-15. The company also added the home-furnishing line in its portfolio in the year 2015. It operated through a central warehouse facility (measuring 25,000 sq ft appx.) from where it used to ship its products to different markets across the country through a network of logistical tie-ups.

It is believed that Fashionara faced a heavy cash crunch and failed to attract funding. In an industry where competition is already intense with the presence of players like Flipkart, Amazon, Myntra, Jabong etc, Fashionara resorted to flash sales and deep discounting that left deep cuts in its pockets.

It was hard to see how was Fashionara was different from its competitors or in terms of its offerings. Clearly, there was a lack of innovation or any strong USP. Nothing appeared wrong with the basic business model but competition in retail e-commerce is just way too hot to get away with just the basic

3. Pets.com

Established in 1998 and headquartered in San Francisco, Pets.com was an online retail company offering pet food and accessories over the internet. That was almost 20 years back from now; at the peak of the dot-com boom. Pets.com was an interesting concept for its time. In a lifespan of fewer than three years, the company was fiercely competitive and seemed to have acquired a strong growth trajectory. It acquired one of its rivals (petstore.com); it went public (raised about $80 million) and it spent millions on marketing campaigns. Interestingly, Amazon had a 54% ownership stake in the company. In November 2000, the company opted for liquidation.

Many dot-com players not only survived the IT bubble burst of the early 2Ks but also managed to grow after the market stabilised. One such prime example is Amazon. Pets.com could have done much better in managing the affairs of the company and quite a few right things at its inception. The key problem area with Pets.com was its lack of market research and analytics.

Although Pets.com revolved around an innovative concept it seems to have failed to accurately define its customers and market segments which resulted in misdirected promotional efforts and eventually hurting the company in achieving its anticipated sales figures

If we observe carefully, we can see that in all of the three aforesaid cases, the core problem area was in the business planning stage. These companies did not focus enough on understanding the product requirements, customers and market segments, competition and on developing a strong USP. And the rest is history. It is always a good idea to talk to a professional startup business consultant to discuss and brainstorm a startup business plan before jumping into action.

4. Strategies to Learn from Big Business Failures – II

In continuation with our previous article on ‘Strategies to learn from big business failures – I’ where we analyzed three prominent business case studies (Blockbuster, Kodak and Hummer) to help entrepreneurs and business owners derive meaningful tips for building effective business strategies; in this article we are presenting two more significant business case studies that shook the world – given the high stature and spiraling growth trajectory these two companies experienced during their golden eras but only to meet bankruptcy in the future.

1. Enron

Enron Corporation was founded with the merger of two small regional companies – Houston Natural Gas and InterNorth, in the year 1985 and was headquartered in Houston, Texas. Enron started as a natural gas pipeline company and was world’s largest energy trading company and was also seventh largest corporation in the United States at one point in time. Enron was in the business of trading of energy supplies. The company brought innovation in the energy sector by designing and offering financial instruments to protect customers against abrupt price hikes in the prices of energy products. These instruments could be traded in the Wall Street like stocks and bonds. Enron reported sales figure of $100.8 billion in 2000 from $13.3 billion in 1996. In the year 2000, Enron registered a net income of $979 million and had an employee headcount of 19,000. Enron also rolled on with the dot-com boom with enrononline.com – its web-based trading platform.

So where did Enron go wrong? The internal problems started for Enron with its derivative business. The company made huge investments in its derivative business and trading ventures where it encountered severe losses. Already riding on the high horse of success Enron resorted to hiding its losses and debts and showing fictitious revenues in its books to retain the faith of investors by entering into complex partnerships. Eventually, the truth came out and the company went bankrupt.

In the form of energy derivatives, Enron brought something very innovative. But to keep the mystique of its quick success and growth in stock prices up and running, the company resorted to accounting practices which were not in congruence with the ethics of accounting standards with the alleged intention of distortion and concealment of facts and figures.

Lessons Learned

The case of Enron provides an important lesson in corporate governance and accounting ethics. Business entities must look forward to setting exemplary standards of corporate governance and business ethics in all the areas of management. Great companies are not just built on financial performance but primarily on the foundation of strong principles, discipline, leadership and excellent business management skills. It is equally important to ensure that the accounting practices are in tune with the accepted accounting standards, statutes and ethics so that material facts and figures are not concealed and stands revealed to the stakeholders involved.

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2. Polaroid

Polaroid was founded by Edwin H. Land (a scientist) in the year 1937 in Cambridge, Massachusetts (U.S). The company's initial product line was polarised sunglasses. The company had the patent for its polarizer technology. During the phase of World War II, Polaroid prospered as a defence contractor for supplying products like Vectograph, IR Night Viewing devices, ski and anti-glare goggles, 3D Imaging devices and other advanced optical instruments.

But what made Polaroid a worldwide commercial success phenomenon was its invention and marketing of the instant camera in 1948. Riding on the successful model of the one-step photographic system and with patented technologies, Polaroid enjoyed a monopoly over the market of instant photography for the decades to come. From the early 80s, Polaroid started taking baby steps towards electronic and digital imaging. In 1998-99, the company was the number one seller of digital cameras in the U.S. In 2001, the original Polaroid Corporation was declared bankrupt.

The instant camera was a hit primarily because it solved many problems of customers and businesses at one go. With one-step photography, customers were no longer required to wait for days to get their photos processed. Secondly, customers had the privilege of retakes in case the photograph was not as intended (which is quite the case with digital photos and especially selfies nowadays). Thirdly, it was a tool of great assistance in the field of insurance, investigation, real estate etc.

Lessons Learned

Polaroid held on to its notion of an instant hard-copy print of photographs for too long. The possibility of digital storage of photographs gave the liberty to customers to store, view, take print-outs of or even transfer their photographs whenever they want. The gravity of this impending change (coming together of digital technology and photography) was undermined by Polaroid in spite of its early research and development works in digital photography as if it was obsessed with photographic chemistry.

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Technology is a powerful and dynamic element in the world of business. It can not only change the way business processes are executed but can also have a profound impact on product design and development. Advanced technologies lead to advanced products and advanced business processes which are capable of solving more problems and fulfilling more needs of customers more effectively and efficiently. This leads us to three important conclusions for modern day business enterprises.

- Remain updated on the developments in the field of science and technology affecting business products, business processes and business environment.
- Periodical reviews and brainstorming on the impact of technological changes on business and its environment and preparation of action plan.
- Financial planning to support the incorporation of or migration to new technologies.

Although business growth and expansion is desirable it does not imply compromise with ethical standards of corporate governance and financial accountability and reporting. Authenticity, transparency and compliance in accounting practices, books of accounts and financial reports go a long way in helping a company build goodwill and loyalty. Secondly, technology has and will continue to alter the fate of businesses. Future products and processes will be increasingly technology-driven.