Commercial Awareness for Managers

MTD Training

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Preface

The term "Commercial Awareness" can sometimes be used as a substitute for business knowledge. In today's economic climate you need to be more aware of the key business drivers at play, budgets, how companies make money and decisions and the like.

In this textbook you'll receive a thorough grounding and understanding on how your actions impact your organization's financial standing, ability to compete and ability to perform in the marketplace.

Sean McPheat, the Founder and Managing Director of management development specialists, MTD Training is the author of this publication. Sean has been featured on CNN, BBC, ITV, on numerous radio stations and has contributed to many newspapers. He's been featured in over 250 different publications as a thought leader within the management development and training industry.

MTD has been working with a **wide variety of clients** (both large and small) in the UK and internationally for several years.

MTD specialise in providing:

- In-house, tailor made management training courses (1–5 days duration)
- Open courses (Delivered throughout the UK at various locations)
- Management & leadership development programmes (From 5 days to 2 years)
- Corporate and executive coaching (With senior or middle managers)

MTD provide a wide range of management training courses and programmes that enable new and experienced managers to maximise their potential by gaining or refining their management and leadership skills.

Our team of highly skilled and experienced trainers and consultants have all had distinguished careers in senior management roles and bring with them a wealth of practical experience to each course. At MTD Training we will design and deliver a solution that suits your specific needs addressing the issues and requirements from your training brief that best fits your culture, learning style and ways of working.

Our programmes are delivered when and where you need them! We believe that training should be fun, highly interactive and provide "real world" practical techniques and methods that you can use back in the office – and that's exactly what we provide.

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1 Introduction to Commercial Awareness

1.1 What is Commercial Awareness?

No manager operates in a vacuum. No matter what your role is within your organization, it will help you do your job (and advance your career) if you are commercially aware. This means that you understand how your actions impact your organization's financial standing, ability to compete, and ability to perform in the marketplace. So, commercial awareness is the characteristic of understanding and being attentive to your role in the organization's overall financial performance. That might be easily said, but it's not necessarily easily done. It requires that you develop your knowledge in several areas.

Commercial awareness involves understanding how your actions impact your organization's financial standing, ability to compete, and ability to perform in the marketplace.

1.2 The People That You Serve

In this area, you focus on your reason for being in operation – the people, businesses, or internal employees that you serve. If you are commercially aware, you understand the following information about these people:

- How do you find them and acquire them as clients? How do you need to provide them with the product or service you offer so that you meet their needs? How do you keep them as clients?
- If your clients are internal to your organization, you need to understand their role in the larger picture. How does your provision of a product or service affect their ability to do their jobs? What would happen if you didn't do your job? How would that impact your organization?
- If your clients are business, you need to understand how your clients operate. What are their structures, their strategies for their own marketplace, their issues and their challenges?
- If your clients are individuals, what influences their purchasing or service provider decisions? What are these people like? What's important to them, and just as relevant, what is not important to them? What will keep them from going to the competition?

1.3 The competition

The commercially aware manager understands that his or her organization operates in a marketplace that is full of other organizations competing for the same clients that you have or want. Commercially aware managers understand the competition as well as their own organization's position in the marketplace. They understand enough to answer questions like:

- Who is your competition? What are their strengths and weaknesses? What can they offer to your clients that you cannot? What can you offer to your clients that they cannot? How will you position your product or service so that you can gain market share?
- Where does your organization fall in the marketplace? Are you a small fish in a big pond or are you the industry leader? What can you do to increase your market share?
- What trends are affecting the marketplace in which you operate? How will they impact your organization? Are you prepared to respond to the oncoming trends or will you be the last one to get on the bandwagon?

1.4 The Bottom Line

Every decision that you make in operating your department or division can have an impact on the overall financial status of your organization. Commercial awareness requires that you pay attention to this fact by monitoring your team's performance to ensure they are operating as efficiently as possible. It requires that you:

- Understand basic finance principles
- Understand how to read, manage, and possibly prepare a budget
- Strive to reduce costs while increasing revenues
- Keep the overall financial standing of the organization in mind when making decisions

1.5 How This Ebook Will Help

As you can imagine from reading this introduction, you could fill several books with information on commercial awareness. Developing it is a learning process that never ends because the market in which you operate is not static. However, we will focus on some of the main requirements of commercial awareness for managers, including:

- Identifying and understanding your customers and the competition
- Commercially aware operations
- Basic finance principles
- Basics on budgeting and pricing

2 Understanding Your Customers

2.1 Introduction

Despite your enthusiasm for all that your product or service can do for a customer, the fact is that there is only a certain portion of the population that will ever purchase your product or service. This is simply due to the fact that customers will purchase what they perceive they can benefit from, and not everyone will benefit from the same product offerings.

So, your job is to identify those customers that are most likely to perceive a benefit from your product or service and then concentrate your time, effort, and money on marketing to and serving those people. This is what we mean by a target market. A market segment is a group of people within your target market, letting you understand your customers in even more detail. Let's look at how to determine your target market and then how to segment it appropriately.

> Due to the fact that customers will purchase what they perceive they can benefit from, there is only a certain portion of the population that will ever purchase your product or service.

2.2 Determining Your Target Market

2.2.1 Types of Markets

When we say 'market' we mean a group of potential or actual customers based on what we know about their needs and habits. When you are determining and researching your target market, you first want to consider the fact that there are three major types of markets:

- **Consumer Market** – Individual people or households that buy your product or service for their own use and benefit. Grocery and drug store items are the most common types of products in this market.
- **Industrial Market** – In this business-to-business market, you are selling to individuals or organizations that will use your product to support their operations or to produce their own product or service. Examples include raw materials, computer equipment, office machinery, or even office cleaning services.
- **Reseller Market** – In this market, you sell your product to an intermediary like a retailer or a wholesaler. They then resell your product or service to another market for a profit. If you are a manufacturer, you will probably sell to a reseller who already has an established market for similar products or services.

When you are marketing or providing your product or service, you might be doing so to more than one of these types of markets. Each of these would be a different target market that will require different activities from you. For example, if you sell office printers, you would market them differently to a business that needs them to function than to a family that wants a printer to print out their family photos and make scrapbooks. If your customers are actually internal to the organization, your communications process will be different than if you serve customers outside of the organization.

2.2.2 Why Your Product or Service?

The next step in determining your target market is to fully flesh out why your customer would want to purchase your product or service. This requires that you can articulate the benefits of your product or service in addition to its features. While a feature might distinguish you from the competition, it is the benefit of that feature to the customer that will motivate him or her to purchase from or select you and your organization.

Let's take a simple example. Let's imagine that you are selling a new alarm clock. You're excited about its features and might be tempted to focus on them in your communications with your customers. But what a customer wants to know is why your features should matter to them. The answer to that gives you the benefits. See the difference between features and benefits for our hypothetical alarm clock in Figure 1 below. Notice that a feature can have more than one benefit to a customer.

Features	Benefits
Dual Alarms	Lets you set a back-up to be sure that you don't oversleep, or lets you set different alarm times for different people.
Large, Illuminated LED Numbers	Makes it easy to see the time without turning on any lights. Easy to see even if you are sleeping without glasses or contacts.
AM/FM Radio	Allows you to enjoy music at any time, or to set your alarm to activate on the music station of your choice.
MP3 Player Jack	Turns your alarm clock into speakers for your MP3 player for use at any time of day. You can also program the clock so that you wake up to your favorite songs on your MP3 player.
Durable Plastic Casing	This clock can withstand those early morning slaps to turn the clock off.

Figure 1: Comparison of Features and Benefits

If you can't tell your customer why your product or service will benefit them, how can you expect them to be able to see why they should buy from you? If you need some help determining your product's benefits, consider the following typical categories of benefits:

- **Business benefits:** These benefits describe how your product or service helps the customer from their own business perspective. For example, your product or service may cut costs, reduce waste, improve the company's image, or help them reach more of their own customers.
- **Technical benefits:** These benefits address specific technical advantages that your product or service provides. For example, you might say that your Widget Wonder 2000 adapts to existing software and hardware platforms, making it easy to transfer existing databases.
- **Process benefits:** These benefits help improve a process. For example, maybe your administrative services would save 1,000 man hours per year over the current filing and record keeping processes the customer has in place. Or perhaps your software has an error-checker that reduces mistakes in delivery by 80 percent.

Another way to determine the benefits of your product or service is to look for action words that describe what it does for the customer. Try writing sentences about your product or service that start with words like:

- Assures
- Allows
- Enhances

- Extends
- Delivers
- Enables
- Improves
- Maximizes
- Prevents
- Reduces
- Increases
- Simplifies
- Frees
- Blocks

Ask others in your organization to chime in on this exercise so that you get a full range of possible benefits for your customers. Each customer may seek a different benefit, so this information becomes your toolbox you can use when you decide to market to each segment of your target market.

2.2.3 Segment Your Target Market

Your instinct may tell you to simply blanket your entire market with the same information, the same type of service, or the same products. And while you may satisfy some customers by doing so, you won't serve your customers as well as if you had taken the time to divide your target market into segments so that you can direct your actions at each specific group. This process is referred to as market segmentation.

> The process of market segmentation involves dividing your entire market into segments with similar characteristics that you can then server more effectively and efficiently.

Since we know that each customer will have different needs and perceive different benefits from your product or service, you will be most effective when you address each customer's needs directly. If you can group your customers into segments by needs, you will be able to focus your marketing, actions, and services to speak directly to those customers as a group. This means you might run separate advertising campaigns promoting a different benefit of your product or service for each segment of your target market. Or you might offer certain discounts to your largest, bulk customers or special financing terms to your smaller companies.

Larger markets can be broken down into smaller target market segments by considering four different types of characteristics:

- **Geographic:** Your customers fall into a specific geographic segment, whether it's a local, municipal, state, region, or nation. Even within one geographic characteristic, such as the state of New York, you may have multiple geographic segments based on product availability, delivery range, or other characteristics of the customers themselves. If you are a brick and mortar business, geographic location has a much higher importance than if you are an online only business.

  However, even if you are an online business, geography may still matter. For example, if you sell ski equipment, you may focus more on regions where skiing is common first. Climate, in fact, is a geographic segmentation for many businesses such as air conditioning, heating, building materials, or other sports equipment.

  If you choose to do business outside of the continental U.S., you have to recognize the implications this will have for your operations. Are you prepared to market and provide customer support or service in other languages? Are you well researched enough to know what marketing strategies will work in other countries? Are you prepared to have your website and other marketing materials translated into other languages and to conduct business in other currencies? Geography can have a great deal of impact on your market segmentation and operations in these situations.

- **Demographic:** This information encompasses a number of characteristics that describe your customer and the likelihood that they would have an interest in or a need for your product or service – as well as the ability to afford it.

  For individual consumers, these characteristics might include:

  - Age
  - Sex
  - Race
  - Religion
  - Income Level
  - Family Size
  - Number of Children in a specific age range
  - Marital Status
  - Sexual Orientation
  - Education Level
  - Profession
  - Home Ownership
  - For business customers, the demographic characteristics you choose to consider might include:
  - Industry
  - Size of company
  - Number of locations
  - Number of employees
  - Annual revenue
  - Age of company
  - Growth rate of company

- **Psychographic:** These characteristics are related to the feelings, attitudes, and beliefs of the target segment. For example, some customers will buy a product or service because it will make them feel that they belong to their peer group, that it will give them some sort of status, or that it will in some other way provide a social benefit. Luxury items, technological gadgets, interior designers or housekeeping services are examples of things that people may buy due to psychographic characteristics. However, all segments will have some level of psychographic characteristics.

  Psychographic characteristics for the consumer market that you might consider include:

  - Status seeking
  - Fun seeking
  - Lifestyle choice

- Trend following
- Family stage
- Family oriented
- Hobbies
- Sports or outdoor enthusiasts
- Conservative
- Liberal
- Religious
- Socially responsible
- Environmentally responsible
- Technical aptitude
- Workforce type and level

For businesses, some psychographic characteristics you may consider are:

- Business stage
- Business style
- Business product types
- Socially responsible
- Environmentally responsible
- Industry leader
- Innovative
- Employee focused
- Workforce type
- Management style
- Conservative
- Cutting-edge
- Trade associations
- Publication subscriptions
- Training types offered
- Value placed on education of employees

- **Behavioristic:** These characteristics are related to the way that customers buy your product or service. It may be that customers purchase your product or service regularly, whenever they run out of their supply or have a need for it. Or, it might be a seasonal purchase that is bought once a year. Perhaps your product or service is considered a luxury by your customers so that it is only purchased when it is perceived as being a good bargain or when the customer has extra spending money such as around tax refund time. Businesses may make purchases only once a year and only when they have the budget to do so.

You will want to answer questions such as these to determine the behavioristic characteristics of your target market:

- When or why does a customer purchase your product or service?
- How many times will they purchase it?
- How often will they purchase it?
- How much will they purchase?
- How long will they take to decide to purchase it?
- What factors (cost, availability) will influence whether or not they purchase it?
- Where will they purchase it?
- Where will they use it?

To put all of these characteristics into use, you need to decide which information would be the most useful to you in identifying, qualifying, and serving customers. For example, if you are selling million dollar yachts, income level is going to be more important than many other characteristics. But if you are selling educational materials for children under five, you're going to concentrate on family composition and the number and ages of children in the home since the majority of your market will likely be able to afford books.

> You need to decide which of your customers' characteristics will be most useful to you in identifying and qualifying customers.

You might add in a few more characteristics, such as people in the geographic area of your shop or those who have a higher education level themselves if you feel they would be more likely to buy educational materials for their own children. However, unless your books are religious in nature, you probably won't consider whether or not a family is religious.

One more thing you need to do is to understand and identify what is important to your customers when they make a purchase. Are they more interested in the brand name, the function, the cost, or the quality? For services, are they more interested in the quality, cost, time frame to deliver, or ability to deliver the intended outcome? For each of the items below, rate them on a scale of 1 to 5 with 1 being 'not at all important' and 5 being 'very important'.

- Brand name
- Price
- Variety of products
- Quality
- Sales staff (relationship with)
- Customer service
- Packaging
- Location
- Availability
- Time frame for delivery
- Previous performance history
- Ability to deliver the intended outcome
- Promotional campaign
- Sales or special offers
- Ease of use
- Ease of sales transaction
- Payment options and terms

You should now have a very clear picture of your target market and the segments within it. You will be able to take this information and use it to market, serve, and respond effectively to your specific audience. But before you do that, you need to know how to find this information.

2.3 Researching Your Market

Luckily there is a great deal of information available to you in local libraries or in the library at a college that also has a business school. Use any or all of these resources to help you learn about your target market:

- Federal Commerce Department's Statistical Abstract of the United States: this resource is published annually and offers information on all sorts of demographics within the country. Although the information is mostly national, there are some tables that focus on states and major metropolitan areas.
- United States Census: The United States Census Bureau aims to count and understand information about the U.S. population every 10 years. When the information is published it is available in print in many libraries, or you can order a CD-ROM of the information.
- County and City Data Book: This publication contains data for all 50 states as well as some of the nation's counties, cities, and metropolitan statistical areas.
- State and Metropolitan Area Data Book – this publication is released annually and provides demographic information for central cities, counties, and for each state and metropolitan area.

You can use commercial sources of demographic information as well. The Gale Directory of Databases is a publication available at local libraries that will give you a complete listing of demographic databases. Keep in mind that you will need to pay for access to many of them.

Psychographic and behavioristic characteristic information is usually only available by examining your market segments via focus groups or surveys.

So how do you find information on psychographic and behavioristic characteristics? Unfortunately, this information isn't usually available in your local library. Instead, you will either need to locate the results of focus groups and surveys or you will want to complete them yourself. A focus group is a group of individuals that fit your demographics that you interview in order to learn what is important to them when buying products like yours. Surveys are anonymous and are usually used to blanket a larger group of your potential or existing customers. In either case, you will be trying to learn what makes the group buy one product over the others or choose one company's service over the others.

Usually you will need to hire a market research firm to do this for you, as it is a science in itself to do it properly. However, if you can't afford to hire a research firm, you can try to get some information from your existing customers. Here are some ideas for using your own questionnaire:

- Post questionnaires at your retail location or ask the online customer to complete one
- Mail them to your existing customers
- Include a questionnaire with a monthly invoice or statement
- Offer an incentive for completing and returning the questionnaire

You will want to create questions that tell you what it is you want to learn about your customers. Some questions to ask might be:

- How would you rate our customer service today?
- How could we have served you better?
- If you could improve this product (or service), what would you change?
- What was the main reason you chose our product (or service) today?
- What other products or services could we provide to you?
- When will you need to purchase a similar product (or service) again?
- What, if anything, would have you choose another provider for your next purchase?

Obviously, the number and type of questions you ask will depend on what exactly you need to learn about your customer. Just be sure that you make it convenient and easy for the customer to respond and that you have given them enough room to write their answers!

If you sell to other businesses, you could also get subscriber information from the trade journals that apply to your industry. You can usually get this information for free if you call the publication and request a press kit. Trade associations are another resource you can tap into for information on your market. They often have information on demographics and competitors within an industry. If you attend a trade association's trade shows you could even have the opportunity to interview some of your potential customers.

Now you should have a full picture of your target customer. You should know their characteristics and what is important to them. You may have several different segments within your target market, and that's fine. You will continue researching and updating your customer profile as your products or services change and as your business grows. Researching your target customer should be an ongoing effort of remaining commercially aware, not something you do once and put up on the shelf.

3 Understanding Your Competition

3.1 Introduction

Once you have identified your target markets, you need to understand who you will be competing with to reach, acquire, and keep those customers. Just as you researched your customers to develop a profile of the different segments, you will need to research your competition to build a profile of their strengths, weaknesses, and their successes with the same customers that you want to succeed with. You will use the analysis as a means to improve your own product or service – where they are weak, you will want to be strong, and where they are strong, ideally you can be stronger.

> Just as you researched your customers to develop a profile of different segments, you will need to research your competition to build a profile of their strengths, weaknesses, and successes.

There are many resources available for locating this information. You can start with what the competitors are saying about themselves. You can find information about your completion from sources such as:

- Their websites
- Their promotional brochures and other marketing materials

- Their annual reports
- Their press releases
- Their product manuals
- Trade publications
- Customer ratings on third party websites
- Industry ratings on the internet
- Articles about the organization by the press

Notice that you will be checking biased resources (the ones the company published) as well as the objective reports from third parties such as product reviewers or customers. The objective information is a great way to find out in particular what the competition's weaknesses might be. If customers are complaining over and over about the lack of customer service or the fact that a product breaks after three uses, you can use that information to help position your own products and services. The more information that you can gather, the better equipped you will be to compete and to improve your organization's position in the overall marketplace.

> Your research of objective information could tell you what a competitor's weaknesses might be.

3.2 Who Are Your Competitors?

You may already be very aware of your competition, depending on your size and the length of time that you have been in business. You can find out who they are from examining advertising, talking to your potential customers, or attending industry trade shows. Search online for your own product or service, because in the age of the internet, you can't assume that your only competition is local. The one mistake that you could make at this point is to overlook a major competitor – someone who:

> A In the age of the internet, you cannot assume that your only competition is local.

- Offers the same product or service that you do
- Offers a similar or alternate product or service
- Offers the same service you do as part of a package of products or services
- Is planning to launch the same product or service

This requires some creative thinking to make sure that you have considered all the ways in which you could be facing competition. You will also need to remain vigilant in this research as part of remaining commercially aware so that if any new competition arises, you are prepared to respond to them within your own customer base.

3.3 What to Learn about Your Competition

There are many questions you need to ask and answer about your competition. Since most of this information is available in the public domain, you can usually find it on your own if you and your staff have the time. However, you can also hire a market research company that can locate and streamline the information for you. Some questions to ask about your competition include:

> Most of the information you need to learn about your competition is available in the public domain.

- How many competitors are there?
- Do you compete with them directly or indirectly?
- Who are the competitors that could threaten your most important customers? These are the ones to which you will want to make developing a strategic response a priority.
- Where are the competitors? What geographic advantages do they have, if any, in reaching your customer base?
- How large are they in comparison to you?
- What resources do they have that you don't?
- Are they growing? How fast?
- How do your products and services compare to the competition's in price, image, quality, recognition, distribution methods, and customer service?
- What does your customer base think about the competition?
- What weaknesses does the competition have? What are their strengths?
- Which of your customers might change to your competition, and why?
- Who are the main customers of your competition?
- Which customers of theirs would you most like to have?
- How difficult would it be for you to reach those customers given their existing relationships with your competition? Think about any contracts, outsourcing, or other existing service arrangements that might make it difficult to get the customer to change.
- How strong are the relationships between the competition and the customers? Do key decision makers in each organization have a personal relationship that could make it more difficult for you to convince them to change?
- What skills and resources do you need to develop in order to beat the competition?

You will certainly think of additional questions to ask yourself regarding your competition, depending on the type of industry that you are in and how saturated the market is with competitors. Your next step is to thoroughly examine how you compare to your competition, particularly those that you have identified as having the most valuable customers or posing the greatest threat to your retention of your most valuable customers.

3.4 Rating Your Company against the Competition

There are a number of factors that your customers evaluate when they are planning to choose a provider or product. Not everything will be of equal importance to your customers as they would be to customers in another industry or location. But as you learn about your customers and your competition, you should be able to identify what factors are most important to your customers – and how you rate in comparison to the competition in providing those things to customers.

Below is a list of factors that are often key in meeting the needs of customers. Now that you have done the research on your competition, how would you rate your company in these factors? Place a number from 1 to 10 next to each item, where 1 is the worst in the market and 10 is the best in the market.

____ Customer service excellence, such as fast problem resolution

____ Technical support excellence (By phone? By email? On your website?)

____ Cutting edge products

____ Adaptability to customer needs

____ Keeping customers informed

____ Quality control of products and services

____ Value for what customers receive

____ Responsive to customer feedback

____ Encouraging customer feedback

____ Staff knowledge about products and services

____ Promotional offerings (discounts, guarantees, flexible pricing)

____ Financing or payment options

____ Fulfillment of promises (quality, delivery time, results)

____ Reputation with customers

____ Reputation amongst employees, distributors, and intermediaries (especially in business to business sales)

____ Commitment to community service

____ Environmental responsibility (How 'green' are you?)

In each spot that you placed a 10, those are your strengths that you should continue to emphasize – particularly if you can put some kind of data around them. For example, did you deliver on time and as promised 98% of the time last year? Of course, where you truly need to focus is on the lowest numbers that you wrote in above. Those are your weaknesses. If the factors where you are weak are also factors that are important to your customers, then you have identified an area that needs improvement. That is an area where your competition could exploit your weakness in order to win some of your own customers over to their product or service.

You should now have a clear picture of your company's strengths and weaknesses in comparison to the competition. You also now have information regarding what you need to work on in order to improve your level of effectiveness in the market place. By responding to what your customers need and value and providing it to the best of your ability, you will be continuing to fortify yourself against the possible loss of customers – and even gain some in the process.

4 Commercially Aware Operations

4.1 Introduction

When you are managing your team, there are certain tasks that you do simply because the ongoing survival of the organization requires it. However, there are times that you might take on a project that is out of the normal scope of operations. In either case, there is room to examine the way you operate from a perspective of commercial awareness. Every decision you make can have an impact on the financial status of the organization or the relationships it has with its clientele. For example, if you choose to start a new project, you will spend man hours on the project that are lost to your pre-existing operations. Have you fully understood what the true impact of that project would be, even if you add no new expenses?

When you look at what you do in this way, you may find room for improvement, elimination, or even expansion of certain operations as ways to operate more efficiently. In this chapter we'll examine some ways to look at your operations and determine whether or not you can make some changes to operate in a more effective or efficient manner.

4.2 Defining Your Reasons

The first and vital step of being commercially aware in operations is to accurately define what you are currently doing. Why do you do what you do in the first place? Why are you doing it? Why are you considering adding a new project to your current activities? If you can't clearly define your reasons for what you do as well as your desired goals and objectives for any new project, you will waste a great deal of time and resources unnecessarily.

> If you can't clearly define your reasons for what you do as well as your desired goals and objectives for any new activity, you will waste a great deal of time and resources unnecessarily.

You can formally define your operations with a team charter or definition document. It includes multiple sections of information and serves more than one purpose for you. First, it clearly shows the need for your existing operations (or the lack of need for certain aspects), or any benefits that you will receive in return for new projects. It sets the parameters of what can be expected in terms of contribution and performance from your team – and just as importantly, what is outside of the scope of your team's operations. If you are including a new project in your plan, once it is approved, it also confirms agreement that you will have the stated resources you need to complete the plan. And finally, the document serves as a master plan while you are working with your team.

4.3 Background

Here you examine what has brought you to the current state of operations that you are performing as well as the reasons any new project has been proposed. What has happened in the organization or in your field that has prompted the need for you to take action? Think about:

- Description of the current state of affairs
- Any external market shifts requiring change, such as legal changes requiring compliance
- Explanation of recent internal events leading to the proposed change
- Description of a newly identified opportunity that requires change in order to adopt it, such as a new target market
- Any other overview information that helps you understand the environment you are operating within

4.4 Objectives

In order to define objectives, start by asking yourself the questions below regarding your overall goals:

- What are we trying to achieve?
- By when are we aiming to achieve it?
- What, specifically, are the goals, and why are they important to the organization?
- What will success look like?

It's not enough just to identify your objectives. You also need to have a specific set of criteria by which you will measure your success in meeting your objectives. How will you determine how well your team is doing? How will you know if you were not successful? In order to answer those questions, you need to determine exactly what it is that the organization hopes to gain from your department's operations.

For example, if one of your goals is to retain customers, how will you measure this? If one of your goals is to increase revenue, that's simple enough. But what exactly do you mean by increasing revenue? Increasing revenue without increasing costs? Increasing the per-customer revenue or increasing revenue by increasing the customer base? The former may not raise your operational costs as much as the latter. Knowing what your objectives are and how you will measure your success in achieving them is a fundamental aspect of commercial awareness.

You also need to prioritize your objectives. Which ones are vital to the organization's continuing success? Those are the ones that you have to focus on – period. But then there are the objectives that would improve your team, your work environment, or your standing in the market or against the competition. Some of them will not be as vital as others. You need to determine which of your objectives would have the most negative impact on the organization as a whole if you were to fail to meet them and then focus your resources accordingly.

4.5 Scope of Operations

The scope of operations is the range of activities that your team will undertake. It is an agreed-upon area of focus that sets a sort of 'boundary' around your activities. For example, if you were to decide to do a project that was a review of your HR system, what exactly does that mean? What kind of review? What divisions? All of the functions or just some of them? Does that include a full review of benefits and salary scales as well? Will you be looking at reclassifying positions and reorganizing people – or even possibly eliminating positions?

You define the scope based on your objectives, but there is another way to think about scope. Particularly for some projects or activities, you could ask yourself the question, "What do we have the authority, clearance, agreement, or support to accomplish?" The answer to this question will help you to define the scope of your activities within the parameters of your company's organizational structure.

> What do you have the authority, clearance, agreement, or support to accomplish?

There are several other questions that you could answer in regards to your scope, depending on what your role is and what your own senior management team expects. Consider whether or not you need to include some of the answers to these questions:

- If we face a problem, are we solving it or just identifying possible solutions for others to select from? Coming up with the solution could be one project and implementing it a second, separate project, or they could be one in the same.
- What are the standards of performance we will apply to our scope of activities? In other words, is there a code of ethics, generally accepted professional standards, or other guidelines that we will adopt for our team? What existing company policies guiding our work standards will apply?
- Are we (you, your colleagues, your supervisors and above) agreed upon what we are meant to achieve? Without clear agreement and shared understanding, you are leading yourself towards serious problems.

4.6 Operational Constraints

If scope is one form of boundary on your activities, constraints are another. Every division will have some form of constraints, simply because of the fact that our resources are finite and our willingness to expose our organization to risk is limited as well. Whereas we might want to spend two years researching our new product idea, testing it, and getting it to the marketplace, our competitors might get theirs there faster and we might suffer in market share as a result. So another way to look at constraints is to consider the realities around your resources and your level of willingness to be exposed to risk. You then may have to make a difficult decision regarding what to sacrifice and what to preserve.

> Constraints are another form of a boundary on your work because our resources are finite and our willingness to expose our organization to risk is limited.

4.6.1 Understanding Resources

In this sense, the term 'resources' refers to people, equipment, and money. As we know, we have a limited supply of all of our resources. But it's important to understand what these constraints on our resources are because they impact the amount of work that we are able to do, the amount of time we have available, and the cost of completing particular activities or projects. For many of us, estimating and understanding the use of external resources (contractors, suppliers, government officials, etc.), is easier than estimating and understanding the requirements and cost of using our own internal people or resources for a project.

> In this sense, resources refers to people, equipment, and money.

To demonstrate this, let's look at the costs involved with the use of people as a resource. Time is money since everyone is probably paid for what they are doing at your organization. You also may not have the needed expertise inside your organization to successfully complete a highly technical or specialized project or activity. So your costs for people could include:

- The cost of a 'fill-in' employee for each person while they work on the a new activity or project
- The cost of lost productivity on other projects or activities for each person working on a new project
- The cost of training involved for your resources to be able to work on a new activity or project (or ongoing activities and projects)
- The cost of hiring a technical expert or support staff

There are also a finite number of hours in the day and a limit to the amount of work that you can accomplish in that time. The amount of work that you can achieve is dependent on the number and complexity of your objectives as well as your performance criteria. For example, if you have one objective and you've been approved to just get it done to a minimum satisfactory level, chances are that will be a lot less work than if you were told the objective must be completed to a superior level of quality or if you have multiple objectives that need to be completed.

There is usually going to be a tradeoff between your resources, the time you have to use them, and the work output that you can produce. You could also say that the amount of work that is required is dependent on the number of resources that are needed and the time that is needed to complete the objectives. This could be a literal calculation, such as:

Number of resources x Time worked = Work Output

This equation can actually help you think through your resource needs and constraints in several different ways. You know that if you have more people, either the work output will increase or you can keep the work output the same and decrease the amount of time required to complete your objectives. If we decrease the work output, we can also decrease either the time or the number of people we need, or both.

Since each resource has an associated cost, your simple cost equation for a particular activity would look like this:

Cost of Resources x Work = Total Cost

So to reduce our costs without reducing the work amount (and, we assume, work quality), you would need to reduce the cost of the resources used either by the number of people, the level of people, or the time that they work.

What is the point of this discussion? It's to show that keeping your resources focused on the work at hand will reduce the time you need people to work and will, in turn, reduce the cost of your operations. It also shows how important it is to properly estimate the time it will take to complete your objectives. If you don't take these resource constraints into account when determining your operations, you will either end up over budget, over deadline, or you will risk failing to achieve your objectives at all.

4.6.2 Performance Criteria

As described in the last section, performance criteria affect the resources that you need. The higher the criteria that you are expected to meet, the higher the cost will be to achieve your objectives. When you are truly commercially aware, you understand how different levels of performance will affect your costs.

Remember, though, that there are also indirect costs of reducing performance criteria. If you are rolling out a new product and you decide that you will limit end-to-end testing in order to reduce the cost of the project, you may very well end up with higher costs after the launch because of a system failure or mass customer complaints. So, as a manager it is important to see how your performance criteria determination can impact the organization directly and indirectly.

The higher the performance criteria that you are expected to meet, the higher the cost will be to achieve your objectives.

4.6.3 Time

Looking back at our earlier discussion and formulas, we know that time also affects the cost of our operations, and time constraints may also impact the availability of necessary resources. But there is one point to make about time that we haven't made yet. It is that the quality of the resource, or people, that you have for performing your operations may affect your time needs as well. If you have two well-qualified people on your team, they may be able to do the same work as four un-qualified people.

So consider being willing to pay a higher price for team members if it will save time in the long run. On the other hand, if you aren't concerned about the amount of time it takes to achieve your objectives, you could hire cheaper, unqualified help. Of course, this poses a risk to the quality outcome as well.

> If you have well-qualified people on the team, they may be able to work smarter – and faster – than if you have less-qualified people on board.

4.7 Understanding Risk

An important part of commercial awareness is to understand how your decisions could expose your organization to risk. A risk is defined as anything that would have a negative impact on your organization or the achievement of its primary objectives. For example, a risk could be any delay that would make you miss deadlines. A risk could be that you are expecting a certain amount of revenue from the quarter in order to continue operations, and something could impact your ability to earn that revenue. Or, someone else in the organization could decide they need your technical support person more than you do and attempt to pull them from your team.

> A risk is defined as anything that would have a negative impact on your organization or the achievement of its primary objectives.

No organization is entirely without risk. However, you can greatly minimize your exposure to risk if you address identifiable risk factors as part of your operational planning. You can then prioritize which risks you want to dedicate your attention to based on the likeliness that they will happen and the impact on your ability to achieve your objectives if they should happen. To decide which risks to work towards ameliorating, we can use what is called a Risk Impact / Probability Chart. In order to interpret the chart, you need to know the following definitions:

- Probability – The likelihood of a specific damaging event (risk) actually happening expressed as a percentage. You can have a probability range of greater than zero and less than 100 percent probability. It cannot be zero because then you would be talking about something that isn't actually a risk. And it cannot be 100 percent because that would no longer be a risk – it would be a guaranteed, certain event.

- Impact: The magnitude of the affect if the risk does occur. Every risk has a negative impact, but some will have a greater impact than others. An impact can be defined in terms of loss of revenue, increased cost, increased time, decreased quality, or some other critical aspect of the parameters of your operations.

These two factors represent the axes on a graph that represents the level of risk an event poses. See Figure 2 for an example of a Risk Impact / Probability Chart.

Let's examine situations at the four corners of the chart:

- **Low Impact & Low Probability** – In this corner, the risk is unlikely to happen and even if it did happen, there would be a small impact. Risks that fall in this corner can sometimes be ignored – particularly when there are higher impact, higher probability risks that you need to be focusing on.

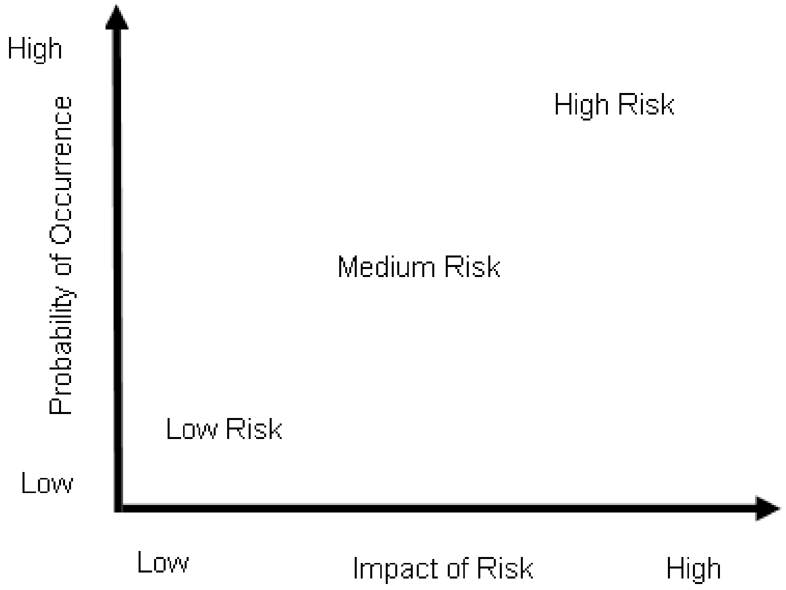

Figure 2: Risk Impact / Probability Chart

- **Low Impact & High Probability** – Risks in this corner are of medium concern. They are likely to arise, but you handle them and then move on. You might be able to predict some of them, but probably not all of them. Still, reducing the probability of these risks ahead of time where you can will still save your time and resources.
- **High Impact & Low Probability** – Risks in the bottom right corner of the chart are not likely to happen, but if they do happen they will have a significant impact on your operations. Examples include budget cuts, loss of a team member, or sudden urgency in reaching an objective. You will want to spend time predicting what impacts this type of risk would have and creating contingency plans if one of these situations occur.
- **High Impact & High Probability** – In this corner you have the most damaging and the most likely risks. You must make preventing or averting these a top priority if you are to have any chance of moving the team (and perhaps the organization) past them if they happen. These are the things that, if they happen and you're not prepared for them, would put your success in serious jeopardy.

Obviously, not every risky event will fall neatly into a corner of the graph above. You will have to determine how risk averse you need to be based on the overall importance of the objectives you are pursuing. For example, even if there is a low probability of something happening but it would result in loss of life, you will probably want to ensure that you pay attention to that risk anyway.

Understanding risks gives you the opportunity to make your senior management aware of the risks as well, so that if something does happen you know that you did your best to present all the possible risks before moving ahead. You may also get feedback that has you adjust the rest of the plan, say, if management is more risk averse than you expected.

5 Basic Finance Principles in Business

5.1 Introduction

People can spend a lifetime studying the principles of finance in the business world. The financial situation of an organization is impacted by every decision made and every action taken. In fact, you could argue that everything a business every does is actually somehow a financial activity. For example, you lose a customer and it impacts revenue. You spend money on a marketing campaign that has a huge return and you've made a positive financial investment. If you don't keep your team members on task, you're effectively wasting company resources.

If you want to be commercially aware, you have to be able to look at your actions and the actions of your team in terms of basic financial principles. You don't have to assign a dollar value to every activity, but you should think in large terms about how your decisions will impact the financial well-being of the business. Remember too that there are both direct and indirect impacts on the organization's finances. For example, you might deny a customer a credit on their bill that they feel they deserve because you are saving money for the organization. But if that customer leaves your organization for the competition, you have indirectly impacted the company's finances in a negative manner because you have lost the future revenue that the customer would have provided.

Remember too that businesses, whether large or small, are out to make a profit. In order to do so, resources must be used wisely and efficiently. There are three basic principles that define corporate finance, each of which we will examine in this chapter:

- The investment principle
- The financing principle
- The dividend principle

But first, let's look at some basic financial definitions.

5.2 Basic Finance Definitions and the Balance Sheet

- Assets: an organization's investments. These are usually categorized into one or more of the following categories:
  - Assets in Place – includes fixed and short-term assets the organization already has
  - Growth assets – assets that the organization will invest in the future such as a business plan or product plan for a new revenue stream

- Liabilities – claims on an organizations assets. There are two main types of liabilities:
  - Debt – a fixed claim such as interest due on the revenues generated by an organizaton's assets. With this type of financing, the claimant has no real role in the operation of an organization
  - Equity – a claim on the profit (residual cash flow) of the business, usually by a claimant that has a significant role in the operation of an organization. This could be a majority stockholder or a partner, for example

Using these definitions, we can create what is called a balance sheet. It is a comparison of the organization's assets and liabilities that creates a general picture of the organization's financial health. The structure is simple: you simply list your assets to create a total dollar figure for your assets, then you do the same for your liabilities.

> A balance sheet is a simply structured document that compares a company's assets to its liabilities, creating an overview of the organization's financial health.

To understand this, consider your own personal finances. You have income and property as your assets, and debt and any depreciation on your assets as part of your liabilities. The same is true for any organization, though different accounting practices may determine assets and liabilities differently depending on whether you use a cash (cash-in hand) accounting system or an accrual (invoiced) accounting system.

As a simple overview of what the balance sheet tells you, if assets are greatly in excess of liabilities, then the organization is either making a significant amount of profit or it is under-investing its own resources. For example, you might need to invest some of the profit in developing new markets in order to grow the business in the long run.

If the liabilities of an organization greatly exceed the assets, the organization is either in poor financial shape or it is in a phase where a great deal of financing was needed from other sources in order to get the business or a new aspect of the business launched. For example, a start-up business is likely to have many more liabilities than assets. Over time, you would expect to see more assets than liabilities if the organization is to generate a profit of any kind. The following three principles help an organization determine how to best balance their assets and liabilities.

5.3 The Investment Principle

The investment principle simple says that your organization should invest in assets and projects that will lead to a greater return than your minimum acceptable return rate. Sometimes called the "hurdle rate," this minimum rate of return will vary depending on the mix of products that the company invests in, the risk of the investment, and the timing of the cash flow that is expected from an investment. Examples of investments could be expanding into a new market, introducing a new product, expanding your staff, or any other way in which you apply the company's resources.

> Investments are made to create new streams of revenue or profit but they are also made to save money.

Investments are made in order to create or increase streams of revenue or profit, but they are also made to save money. For example, you might decide to invest in a new customer contact software that will keep you from having to flip through piles of paper to find customer information. Or you might purchase a new vehicle that gets better gas mileage and can carry more product than your current vehicle. In this type of scenario, you expect to see a return on your investment eventually, just not immediately.

> You can determine the cash flow an investment will create, though without considering the liabilities it will create you are only seeing half the picture.

There are three ways to measure returns on an investment. You could look at conventional accounting procedures and consider whether or not your balance sheet is in balance with more assets than liabilities. You can determine the cash flows that an investment will create, though without considering what liabilities it will create you are only seeing half the picture.

Or, you could also look at time-weighted cash flows. In this method you look at both the cash that you expect to come in and when you expect it to come in. This could be very important in budgeting whether or not you have enough capital to operate between injections of cash.

As a commercially aware manager, you should be able to identify how your project or activities will create assets and liabilities. You should understand what the minimum return rate or "hurdle rate" is for any investment that you make. And you should be able to objectively and thoroughly understand the return on your investment. Without this information, you don't know if pursuing your objectives is actually worthwhile or if you would simply be wasting time and money.

> The investment principle says that your organization should invest in assets and projects that will lead to a greater return on the investment than your established minimum or "hurdle" rate.

5.4 The Financing Principle

The financing principle says that you should choose a mix of debt and equity as tools for financing your operations that will give you the best value for your investment. The mix you choose should also match the nature of the assets that you are financing.

> The financing principle addresses the mix of investments that a company uses in order to maximize its value.

Every size of business has to finance its operations in some manner. In publicly traded businesses, the debt could be in the form of bonds, while the equity may be in the form of stock. In a private business, the debt is more likely to be a loan issued against the equity of the owner's collateral or cash savings. Using the financing principle, you examine the current mix of financing to determine how it affects the organization's financial health.

Although all businesses have the same objective of maximizing the organization's value, there are several factors that influence how the organization can do so. In some cases there may be legal or regulatory constraints that impact what mix of financing tools a company can choose.

Then there is the consideration of how much risk the organization is willing to take on. Can you afford to lose the investment you are making? If the answer is no, you will be more conservative in investments. But if your main goal is to make as high a return as possible, you have to be willing to take a higher risk. Finally, your mix of investments under the financing principle still has to result in the main objective – meeting or exceeding the return on your investment that you have identified as the "hurdle rate."

> The mix of your investments under the financing principle still has to result in the main objective – meeting or exceeding the return on investment rate that you have identified as the "hurdle rate."

5.5 The Dividend Principle

Under the dividend principle, a business that is thriving will eventually reach a point where the cash flow they are generating is higher than the amount of funds they need to keep up with their optimal mix of financing instruments. This means that you have cash to return to the investors.

> Under the dividend principle, a business that is thriving will eventually reach a point where the case flow they are generating is higher than the amount of funds they need to keep up with their optimal mix of financing instruments.

In a public firm, this is usually in the form of stock dividends or stock buy-backs, depending on what your agreements are with the stockholders and what the stockholders prefer. In private businesses, this could just mean that the owners or principals take some of their invested equity back out of the business. In essence, reaching the level where you provide dividends back to the investors means that you are able to reduce your liabilities.

Corporate finance is all about combining these three principles into a financial strategy that is best for the organization as a whole and provides the maximum value for the organization. Whereas you might not be able to impact how the dividends that are returned to investors with the decisions you make, your financial choices could affect how soon the organization arrives at this favorable state of growth.

6 Basics on Budgeting

6.1 Introduction

A budget may be a guideline regarding your expenses and revenues, but it is more than that. It is actually a policy statement that your organization is issuing. Think for a moment about your own budget. Where do you spend your money? What does that say about you? For example, do you value education enough to pay for it for your children? Do you value your car enough to keep a car payment? Or do you value security more so you actually invest a great deal in savings? Your personal budget would tell an observer information about you, just as an organization's budget will tell you a great deal about an organization. For example, the budget can tell you:

> A budget is actually a policy statement that your organization is issuing regarding its values and goals.

- How the organization is structured – usually an organization's budget is divided into individual budgets for each department or division. In many budget documents, each division or department's budget will include information about the size of the team and even the team's objectives for the budget year.
- What the organization values – how much does the organization pay its employees? How much money is budgeted for benefits and retirement plans? Does the organization value training and developing its employees? What about new research and development or marketing? In an overview sense, how much budget a certain activity or group is allocated gives you a sense of the organization's values and priorities.
- What the organization wants to invest in – if there are new activities or projects proposed, those have to be budgeted for as well. If the organization's budget is full of allocations for new activities, you can determine what type of direction the organization might be headed in. For example, are they investing in higher-technology? Or are they investing in new market segment activities? You can tell a lot about the organization's strategies by where they are investing their money.
- How much debt the organization has taken on – the budget will include payments for debt servicing. This could tell you something about how the organization has invested in the past and whether or not those investments seem to be paying off. This could be an indication of how well the organization manages its finances.
- Where the organization may struggle to reach its objectives – you will realize this the first time that your budget gets cut or the first time you feel that you don't have the budget you need to meet the corresponding objectives. You may have to negotiate with your senior management to explain why you feel that your budget is insufficient to reach your objectives. If they agree, they will either need to increase your budget or decrease your objectives.

- Where the organization might be weakest – the budget can give you a few clues about where the organization may struggle. For example, if they have not allocated sufficient money to technology upgrades, they may not be able to keep up with the competition when the latest advances roll out onto the market. Or, if they don't invest in training for employees, they may face less productive, less satisfied employees, which could result in high, costly turnover.
- Where the organization might be strongest – along the same vein, you can see where the organization will be fully funded to meet the competition head on. If your organization maximizes funding for customer service representatives, your organization should then develop the reputation for having a high level of customer service.

6.2 Approaches to Budgeting

You may be required to develop and submit a budget proposal for your own department or division. When you are determining how to create your budget, there are three common practices:

1. Take last year's budget and, depending on orders or your subjective view of the year to come, either add to it or cut from it to arrive at a satisfactory budget for the new year. This is a rather random method, since it is not informed by what you hope to achieve in the coming year as far as the growth of your organization.
2. Use the coming year's predicted sales as the basis for the budget. In this case, businesses may have already determined that your division receives a set percentage of the sales goal for the year. However, doing so means that the organization is relatively confident that its sales predictions are correct. If you are basing them on last year, and last year was a slow year, then you might end up with less funds than you need in order to keep up with the sales that actually occur. If last year was a banner year, then you might end up with more budgeted costs than actual sales. In either case, the accurate prediction of your future sales is important for using this method.
3. The third common method is called 'blank-page' budgeting. This is usually considered to be the best approach by budget professionals because it allows you to start from scratch and use your identified objectives and priorities as the basis for the budget you create. In this scenario, you look at the coming year's objectives and then you examine what you will need in your budget in order to achieve those objectives.

No matter what method you choose, you will probably have to propose your budget to management in order to get approval. It is a good idea to give management a few options. So you should create a minimum budget, a target budget, and a stretch budget.

6.2.1 Minimum Budget

This is the bare essentials, rock-bottom amount that you can see being required to achieve the lowest level of your objectives. It's important that you truly define what you will be able to do with this budget, and more importantly, what you will NOT be able to do. This makes it clear to management what level of risk they are taking if they only agree to fund your budget at the minimum level.

6.2.2 Target Budget

This is the level of a budget that you feel is the bare minimum in order to fully support the established objectives for the coming year. You are saying with this budget that you can commit to helping achieve the stated objectives as long as you have this amount of funding. Again, you need to clearly delineate what you would be able to provide at this level. Make it realistic, achievable, and as accurate as possible because if you get the full target budget, you will be held to what you have promised.

6.2.3 Stretch Budget

In this funding scenario, you are itemizing what additional level of objectives you can meet if you have this higher level of budget. Don't be surprised if you do not receive this level of budgeting – it's entirely possible that the rest of the organization simply couldn't handle a higher level of performance than what the stated objectives will provide. For example, if you stated that you could increase sales by 10% with your stretch budget, that would mean that everyone involved in supporting the sales team would need to be able to handle that additional 10% of customers, as would customer service, shipping and delivery, or any other departments that interact with customers.

7 Pricing and Commercial Awareness

7.1 Introduction

If you are involved in determining pricing, it can be one of the most vital aspects of applying your commercial awareness. But it can also be one of the most challenging activities that you do. You need to price your products and services competitively, but at the same time set them high enough that you cover your costs and provide yourself and any other workers with a salary. But there is more to pricing than just covering your costs and overhead. The strategy that you use to price your products and services depends on the type of industry you are in, the competition you have, the activity in the market itself, and several other factors that we will examine in this chapter.

7.2 How Important is Price?

In your situation, for your company, in your market, how important is price going to be? For example, if your main benefit that you are offering the customer is that you offer a discount off of what your competition offers, you are always going to have to offer that discount. But if your market position is that you offer luxury products, designer items, or exclusive opportunities, you will be able to charge a higher price for what you are offering. Your price needs to be consistent with however your product is 'positioned' in the market place.

7.3 Demand for the Product or Service

Do you have an understanding of how your price will affect demand for your product or service? If you do any market research that involves identifying your potential customers, what are they likely to be willing to pay for your product or service over the competition's? If you raise your price 10%, what percentage of customers will you lose? If the answer is none, then raise the price. If the answer is 50%, you will want to rethink that pricing strategy. You can determine a lot by studying your competitors' pricing, but you also might want to hire a market research firm for more detailed information.

7.4 Your Environment

In some cases, your pricing will be influenced by factors in your environment that are entirely out of your control. For example, there may be government or other legal restrictions on what you are allowed to charge. Or, you might be in a market where everyone else is charging a much higher price than you are and suddenly charging something too low will make customers suspicious about the quality of your product or service. If competition is hot, hot, hot, will a reduction in your price trigger the competition to cut theirs as well? You might not want to start a price war if you're not willing to see it through to the end.

7.5 Pricing Strategies

There are several other pricing strategies for you to consider. A few popular ones include:

- **Maximize the quantity sold.** If you can get a good reduction on the costs of production by maximizing the number produced (known as economy of scale), then you might want to just sell as many products as you can even if it means a smaller return on each individual item. This can be a powerful strategy for penetrating new markets as well.
- **Target return pricing**. In this scenario you determine your price by first deciding what you want your Return on Investment (ROI) to be. This can be important if you have investors that you have promised a specific return on their investment, or if you have invested your own money in your company and you need to recover that investment in a specific amount of time.
- **Value-based pricing.** Using this strategy, you determine what the value is that the customer places on the product or service and charge accordingly.
- For example, if you produce something that will cut a customer's costs or increase their revenues, you may be able to charge a higher rate, even if it only cost you 10% of that price to produce it. In many cases, this can be the most profitable way to price products and services because it is dependent on what people are willing to pay rather than what you had to spend to produce or deliver your offering.
- **Popular price points** – These are prices which people are conditioned to paying or are conditioned to perceiving as value for their money. Examples include 99 cent menus at fast-food restaurants, or prices like $19.99 or $49.99. Even if a popular price point is lower than where you would have otherwise set your price, you might make up for it by increasing the volume of sales that you receive.
- **Fair pricing** – In this strategy, you are charging a price that is within the range of what a customer considers to be a fair price for that product or service. Even if you are the only provider in your area, customers will resist you if they perceive your prices as 'price gouging.' If you choose this strategy, you should set your prices by doing market research to make sure that your potential customers will consider your pricing to be fair for what you are offering.

It may take some time for you to identify the best pricing strategy for your business, but eventually you will learn what the market and your customers will accept as a price for your product or service and you will be able to price accordingly.

To be commercially aware, you also want to pay attention to what price you are paying for goods or services that you need for the company. The price you pay is the investment that you have to be able to recover. But understanding the strategies behind pricing may also help you to determine the best provider for your needs.

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