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Growing Exports & Route to Market

Presenter

Sheldon G. Wood

Global Sales Director – Carib Brewery Ltd.

Reasons for growing your export business

- Current economic climate
- Source of FOREX
- Utilizing spare capacity in manufacturing plant
- Opportunity to capture markets before your competitors
- Increases economies of scale
- Meet the expectations of shareholders/investors

Growing sales via Exportation and Pitfalls

There are three approaches to growing your export sales:

- Increase market penetration in existing markets
- Capitalize on opportunistic business (e.g. cold calls, natural disasters)
- Targeting new markets based upon strategic intent

Pitfalls of aggressive Export Business expansion:

In chasing aggressive Export business, there are some pitfalls that you need to be aware of:

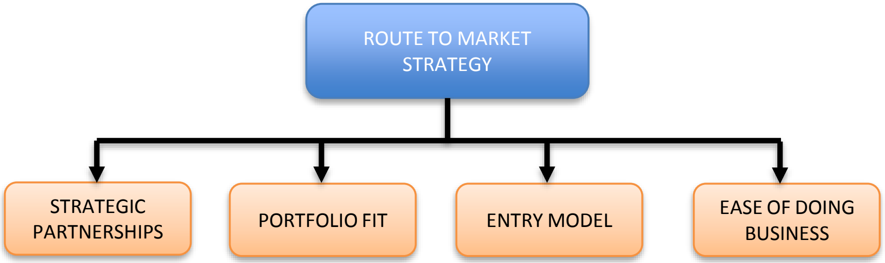
- The impact of no market prioritization
- Mismatch between the size of opportunity and the resources allocated
- Focus on growing export business can leave your local business vulnerable to competition
- Not enough due diligence is done

Prioritization of export opportunities

One export solution cannot be applied to every opportunity that exists.

Your RTM Strategy depends on the following:

- The ability to forge **Strategic Partnerships**
- Does your **Portfolio Fit**
- The chosen **Market Entry Model**
- The prospective market's **Ease of Doing Business**



Strategic Partnerships - Criteria

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The competitive landscape in any given market will consist of distributors and/or manufacturers with a portfolio of products that may or may not compete with yours.

Some criteria for forging strategic partnerships in a given market:

- The product portfolios must not conflict
- The potential partner should have a route to market you can leverage
- The potential partner should have specific customer and consumer knowledge of the particular market and/or category
- Both companies’ strategic intent must be complimentary
- There must be a willingness to allow adequate due diligence

Example of a strategic partnership – Heineken and Carib Brewery Ltd.

Strategic Partnerships - Models

Strategic partnerships can be achieved by one of the following models:

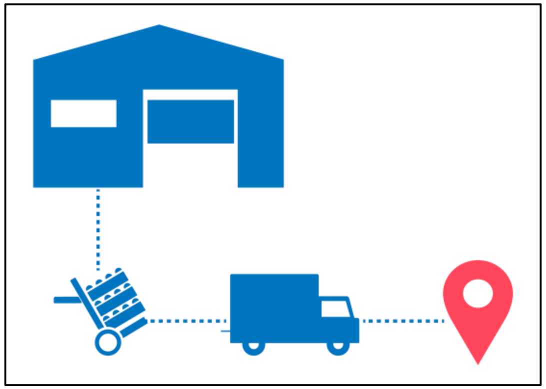
- Distribution
- Licensing
- Franchising
- Equity

Strategic Partnerships - Distribution

Distribution is defined as the means to spread your product throughout the marketplace such that your target customers can buy it.

Some companies manufacture and self distribute, while others have to solicit the services of a 3rd party distributor.

Choosing the right distributor to partner with could mean the difference between success and failure, regardless of how good your product is.



Strategic Partnerships - Distributor Criteria

Criteria for choosing a distribution partner:

- Distribution footprint
- Ability to reach your target customer
- Financial standing
- Willingness to invest
- Distributor portfolio
- Market knowledge
- Aligned Ambition
- Track record of success

Strategic Partnerships - Licensing

Licensing is a commercial arrangement between two companies in which one company (the licensor) gives the other (the licensee) permission to manufacture its product for a specified payment.

This model is chosen when there is existing demand or perceived demand for the licensor product, but exportation costs make the product less competitive in market and constrain sales.

The licensee must also possess the necessary resources (financial & human) and infrastructure to meet the licensor requirements.

Coca-Cola

SMIRNOFF ICE

ESTD 1759
GUINNESS

Strategic Partnerships - Franchising

Franchising is a commercial arrangement where one company (the franchiser) grants another company (the franchisee) the right to use its trademark, business systems and processes to produce and market a product.

This model would be utilized when the franchisee believes that the demand for the product is high enough to cover franchisor costs and generate a reasonable profit.

Strategic Partnerships - Equity

The **Equity** model is utilized when one company sells a percentage of its ownership to another company in exchange for the ability to leverage the purchasing companies resources (financial and human) and utilize its trademarks, buying power, systems, processes and market intelligence.

This model makes sense for the purchasing company's owners as they believe that the future value of the selling company and its assets can grow significantly if it leveraged purchasing companies economies of scale and expertise.

Portfolio Fit

Assessing the portfolio fit in the product's landscape of a particular market involves mapping where all the related brands play in the following categories:

- **Pricing**
- **Taste**
- **Consumer Motivation**

Portfolio Fit – Portfolio Mapping Framework

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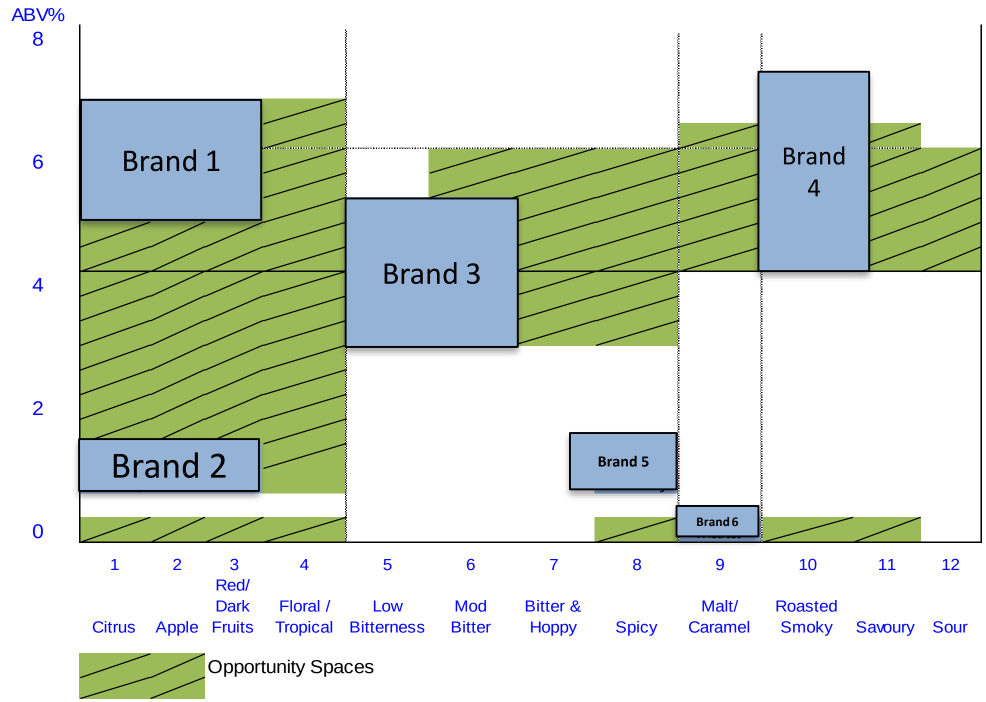
PRICING INDEX OPPORTUNITIES

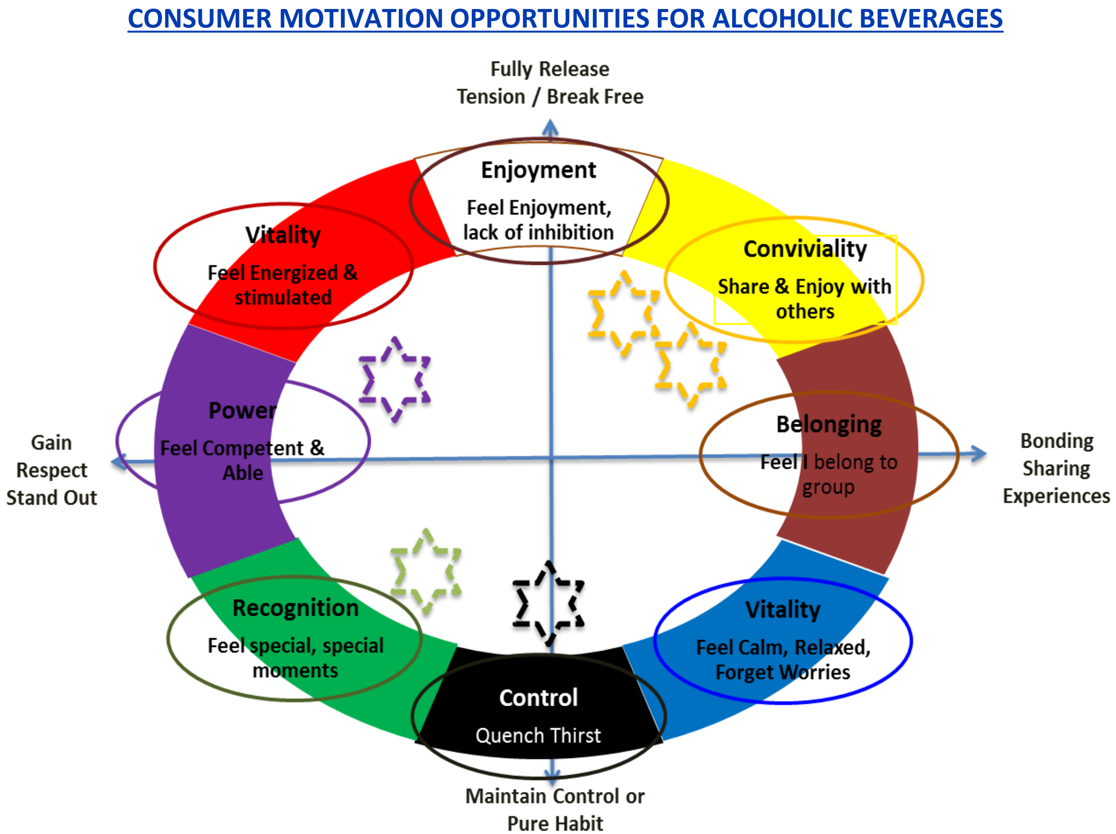
Based on Off-Premise

Price Range	Segment	
> $ 20.00	Ultra Premium >250 PI	 Ultra Premium Opportunity
$ 17.00 - $ 20.00	Super Premium 200-250 PI	
$ 13.00 - $ 16.99	Premium 163-199 PI	
$ 10.00 - $ 12.99	Accessible Premium 125-162 PI	
$ 8.00 - $ 9.00	Mainstream 100-124 PI	
$ 6.00 - $ 7.99	Lower Main Stream 75 - 99 PI	 Value opportunity
< $6.00	Value < 75 PI	

TASTE LANDSCAPE GUIDELINE - OPPORTUNITIES

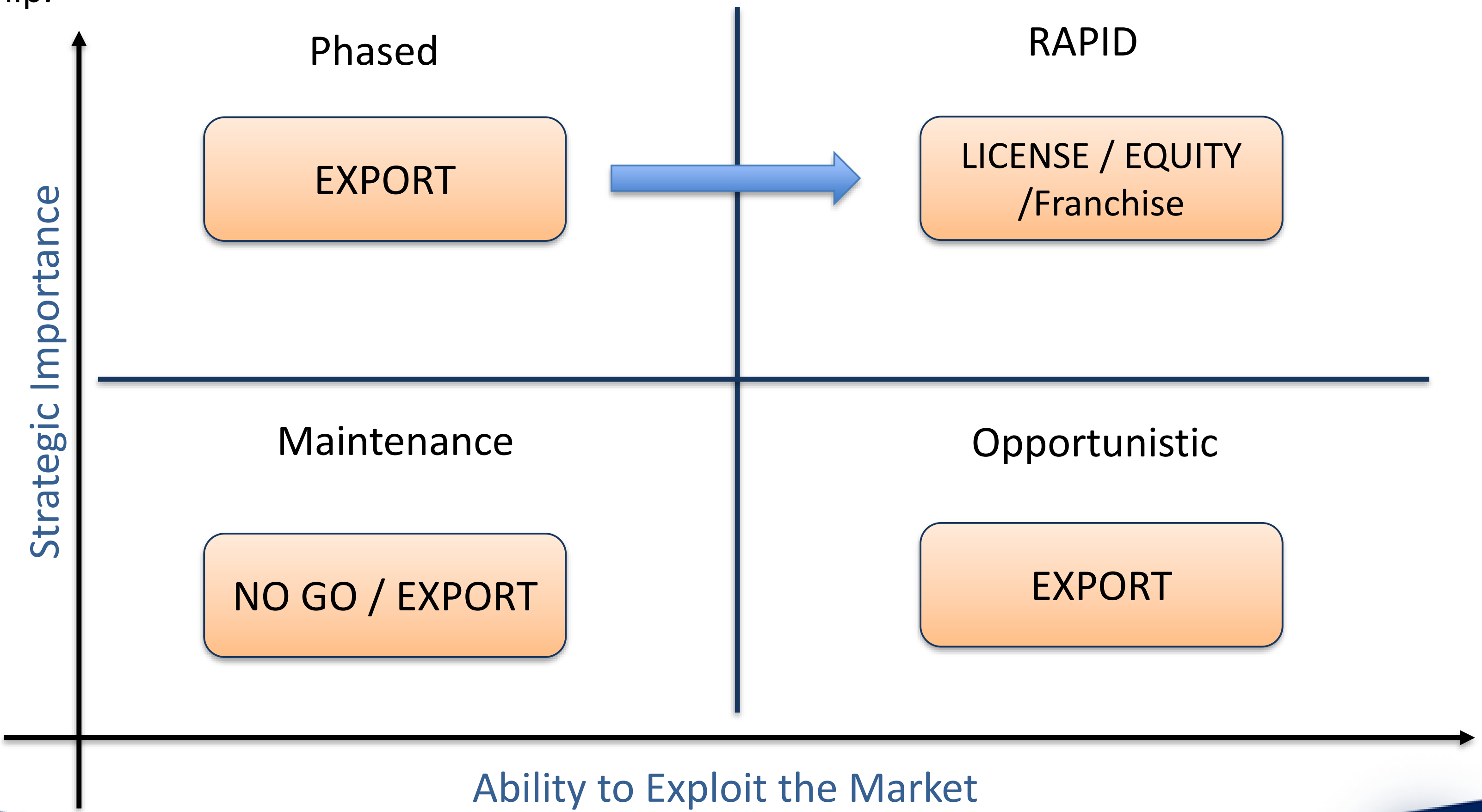


Portfolio Fit – Portfolio Mapping Framework



Entry Model Framework

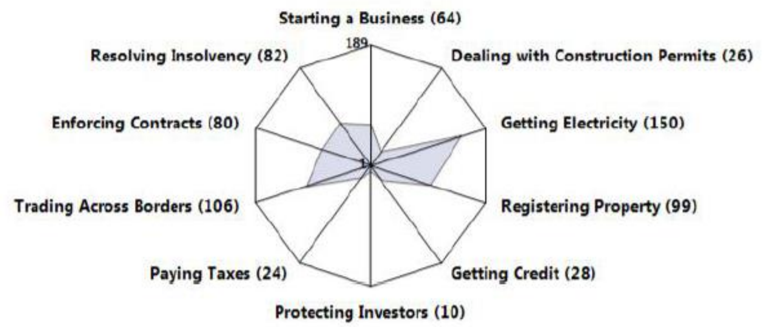
The Entry model assesses markets based upon its strategic importance (e.g. large volume, important for brand credibility, to block competition) and the ability to exploit the market from leveraging a strategic partnership.



Ease of doing business

The ease of doing business index is an index created by the World Bank Group. Higher rankings indicate better, usually simpler, regulations for businesses and stronger protections of property rights.

In the assessment of a markets for entry we will look at the Ease of Doing Business index of the countries under consideration, particularly the criteria that impact our commercial operations.



MARKET-BACK PRICING

Presenter

Sheldon G. Wood

Global Sales Director – Carib Brewery Ltd.

What is market-back pricing?

Market-back or market-based pricing is a technique used to determine the price you should charge buyers based upon the pricing of competitive product in the market.

While there is should be focus on consumer pricing, an understanding of the how your product will get to the consumer i.e. route to market and the associated value chain is also critical in developing your product's strategy.

Route to market – On and Off Premise

Your route to market is how you plan to sell your product and how you plan your sales. If you don't sell the way your customers want, they simply won't buy your product.

Your chosen route to market needs to be in sync with where your customers shop and how they shop.

The channels that customers engage with your product can be classified as either ON or OFF Premise.

A channel is classified as ON Premise if your product is usually consumed at that channel (e.g. bars, restaurants, hotels), and conversely any channel where your product can be purchased, but is NOT usually consumed is considered OFF Premise (e.g. supermarkets, wholesalers, groceries, convenience stores)

Route to market - Models

Some route to market models include:

- Direct to customer sales
- Selling to customers through a distributor, wholesaler or retailer
- Multi-Channel – selling to customers through more than one channel
- Internet/Online Sales

Each route to market model has its strengths and weaknesses and no one model guarantees success.

Understanding who are your target customers and how they purchase similar products, combined with your internal infrastructure and resources will determine which model(s) will bring about the most success.

What is a Value Chain?

“A value chain is a set of activities that an organization carries out to create value for its customers.” - Michael E. Porter

Why is a Value Chain important?

Understanding how your company creates value, and looking for ways to add more value, are critical elements in developing a competitive strategy.

This competitive strategy should be based upon a combination of pricing, innovation, route to market, consumer insight and customer management.

The importance of a pricing strategy

A good pricing strategy helps determine the price point at which you can maximize profits on sales of your products or services.

When developing a pricing strategy, you as the owner need to consider a wide range of factors including:

- Socio-Economic conditions
- Production and distribution costs
- Competitor pricing
- Brand Positioning
- Target customer base

The importance of a pricing strategy

There are 6 general pricing strategies:

1. **Premium pricing** – priced higher than competition
2. **Market penetration pricing** – start low and gradually increase
3. **Economy/Value pricing** – aimed a price conscious consumers
4. **Price skimming** – start high and gradually lower as competition increases
5. **Psychological pricing** - $1.99 instead of $ 2.00
6. **Bundle pricing** – Pay less for a bundle of goods compared to buying goods individually

The Pricing Matrix

This pricing matrix maps out the competitive landscape from a pricing perspective and highlights opportunity spaces for a given channel. Below is a sample pricing matrix for water in the off premise.

Price Range	Segment	
> $ 20.00	Ultra Premium >250 PI	 Ultra Premium Opportunity
$ 17.00 - $ 20.00	Super Premium 200-250 PI	
$ 13.00 - $ 16.99	Premium 163-199 PI	
$ 10.00 - $ 12.99	Accessible Premium 125-162 PI	
$ 8.00 - $ 9.00	Mainstream 100-124 PI	
$ 6.00 - $ 7.99	Lower Main Stream 75 - 99 PI	LMS and Value opportunity
< $6.00	Value < 75 PI	

PRICING INDEX
(based on Off-Premise)

Opportunity Spaces

Market Back Pricing Information Requirements

Target customer price (based upon pricing strategy) and sales volume:

- Customer could be the end consumer or other channel price
- Projected sales volumes for a given period

Product Details:

- Format is product sold to customers or consumers
- Case and/or Unit
- How many units there are in a case

Transportation details:

- Mode of transporting goods
- Sea Freight, Air Freight, Ground transportation
- All costs associated with mode of transportation
- Incoterms – FOB, CFR, CIF
- Capacity (in cases) per mode of transport

Market Back Pricing Information Requirements

Duties, taxes and other charges:

- Import Duties & VAT
- Environmental Levy
- Admin Costs (bank charges)
- Haulage Costs – Get product from port to warehouse

Route to market and margins:

- Direct
- Distributor, wholesaler, retailer
- Multi-channel

Channel Split of Sales

Level of marketing investment:

- Usually a pre-determined percent of projected revenue
- This investment is sometimes split between the manufacturer and distributor

Market Back Pricing – Scenario #1

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Scenario #1 – Selling through a distributor to the Off Premise

Market Back Pricing – Scenario #1

In scenario #1 we have assessed the socio-economic indicators and have partnered with a distributor that has strong distribution capabilities in the OFF Premise and is willing to co-invest in our brand.

We have analysed the pricing matrix and deduced that opportunities exist in the **premium and value pricing segments**.

Our consumer insights have indicated that consumers will be willing to pay a premium price for pepper sauce once there is sufficient perceived value (taste, packaging, advertising & promotions).

With those things in place, we have decided to adopt a premium pricing strategy which results in a consumer pricing of > $20.00 (VAT inclusive).

The Pricing Matrix – Scenario #1

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Based upon the OFF PREMISE pricing matrix for Pepper Sauce in the market, there exists opportunities to adopt a premium or value pricing strategy.

While the matrix does not suggest that you cannot be successful adopting a mainstream pricing strategy, by virtue of many other brands existing in this segment, you will have to find a really unique point of differentiation to stand out against so many other competitors.

Price Range	Segment		
> $ 20.00	Premium > 133 PI		Premium Opportunity Space
$ 15.00 - $ 20.00	Mainstream 100-133 PI		
< $ 15.00	Value < 100 PI		Value Opportunity Space

Competitor Pricing	TT$	US$
Tabasco Reserve	17.99	2.57
Matouks	15.99	2.28
Red Hot	17.99	2.57
Rothschild	17.99	2.57
Calabria	19.99	2.86
Tan Rosie	24.99	3.57
Golden Toad	13.99	2.00
Texas Pete	13.99	2.00
Average Price	**17.87**	**2.55**
Your price	**21.99**	**3.14**

PRICING INDEX
(based on Off-Premise)

Opportunity Spaces

Market Back Pricing – Scenario #1

Target consumer unit price and volumes:

- TT$ 21.99 (VAT inclusive)
- 50,000 cases per year

} TT$ 1,099,500 Revenue

Pepper Sauce category split of sales:

- 80% sold in supermarkets
- 20% sold in mom and pops

Route to market and margins:

- Selling through a Distributor to Supermarket/Groceries
- Distributor minimum required margin after marketing investment – 18%
- Supermarket minimum required margin – 25%

Product Details:

- Consumers can buy single unit or case
- 6 Units in 1 case

Market Back Pricing – Scenario #1

Transportation details:

- Sea Freight – 1,000 cases per 20ft container
- Cost of 20ft container – TT$ 6,500
- Incoterms - FOB

Duties, taxes and other charges:

- Import Duties – 25% | VAT – 12.5%
- Insurance – 10% of invoice value
- Admin Costs (bank charges) – 0.3% of invoice value
- Haulage & Shipper Admin Costs – TT$ 4,500

Level of marketing investment:

- 15% of Revenue | 15% of TT$ 1,099,500 | $ 164,925 for marketing per year
- Target of 50,000 cases per year = $3.30 per case for marketing
- $3.30 per case split 50/50 with distributor

Market Back Pricing – Scenario #1

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Market back pricing details	
Target Supermarket Price (VAT incl.)	**$ 21.99**
Projected Sales (cases)	**50,000**
Projected Revenue	**$ 1,099,500**
Marketing % of Revenue	**15%**
Distributor min. required margin before marketing	22%
Distributor min. required margin after marketing	18%
Supermarket margin	25%
Number of SKUs Per Case	6
Number of cases per container	1,000
Freight per 20ft container	$ 6,500
Freight per case (20ft)	$ 6.50
Shipper Admin Costs per container	$ 2,000
Haulage (Trucking & Unstuffing) per container	$ 2,500
Shipper Admin Costs per case	$ 2.00
Haulage (Trucking & Unstuffing) per case	$ 2.50
All duties and taxes (% of invoice value)	25%
VAT	12.5%
Insurance (% of invoice value)	10%
Bank Charges (% of invoice value)	0.30%
Distributor Marketing contribution per case	$ 1.65

Scenario #1 – Spreadsheet

Market Back Pricing – Scenario #1

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In summary:

To achieve a consumer unit selling price of **TT$ 21.99** with both the supermarket and the distributor making their required margins and factoring all the duties, taxes, freight, hauler and admin charges, the FOB case price required is **TT$ 38.98**

The feasibility of this price from the manufacturer depends on the manufacturer profit objective which has to factor manufacturing costs (fixed and variable), overheads and their share of the marketing contribution.

	TT $	US$
Target Supermarket Unit Price (VAT inclusive)	**21.99**	**3.14**
Target Supermarket Case Price (VAT inclusive)	**131.94**	**18.85**
Supermarket Unit Selling Price (VAT exclusive)	**19.55**	**2.79**
Supermarket Case Selling Price (VAT Exclusive)	**117.28**	**16.75**
Supermarket case purchase price from Distributor (VAT exclusive)	87.96	12.57
Supermarket Gross Profit (per case)	29.32	4.19
Supermarket Margin	25.0%	25.0%
Distributor Case Price to Supermarkets (Vat. Exclusive)	**87.96**	**12.57**
Manufacturer to Distributor Case Selling Price	68.61	9.80
Distributor Gross Profit (per case)	19.35	2.76
Distributor Margin Before Marketing	22%	22%
Distributor Marketing Contribution	1.65	0.24
Distributor Gross Profit After Marketing	17.70	2.53
Distributor Margin After Marketing	**20%**	**20%**
Manufacturer Case Price (landed)	**68.61**	**9.80**
Manufacturer FOB price (removing impact of freight, duty, vat, insurance, bank charges, haulage and shipper admin)	**$ 38.98**	**5.57**

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Market Back Pricing – Scenario #2

Scenario #2 – Selling through a distributor to the **Off and On Premise**

Market Back Pricing – Scenario #2

In scenario #2 we have assessed the socio-economic indicators and have partnered with a distributor that has strong distribution capabilities in both the **ON and OFF Premise** and is willing to co-invest in our brand.

We have analysed the pricing matrix and deduced that opportunities exist in the **value pricing segment**.

Our consumer insights have indicated that consumers' main purchase decision making factors for pepper sauce is **taste and price**.

Given all the factors and insights, we have decided to adopt a value strategy which results in a consumer pricing of **< $20.00.**

The Pricing Matrix – Scenario #2

Based upon the **ON PREMISE** pricing matrix for Pepper Sauce in the market, and the socio-economic indicators and consumer insights we have adopted a value pricing strategy.

While the matrix does not suggest that you cannot be successful adopting a mainstream pricing strategy, by virtue of many other brands existing in this segment, you will have to find a really unique point of differentiation to stand out against so many other competitors.

Price Range	Segment	
> $ 25.00	Premium > 133 PI	
$ 20.00 - $ 25.00	Mainstream 100-133 PI	
< $ 20.00	Value < 100 PI	 Value Opportunity Space

Competitor Pricing	TT$	US$
Tabasco Reserve		0.00
Matouks	22.00	3.14
Red Hot		0.00
Rothschild		0.00
Calabria		0.00
Tan Rosie		0.00
Golden Toad		0.00
Texas Pete	20.00	2.86
Average Price	**21.00**	**3.00**
Your price	**18.00**	**2.57**

PRICING INDEX
(based on On-Premise)

Opportunity Spaces

Market Back Pricing – Scenario #2

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Target consumer unit price and volumes:

- TT$ 18.00
- 15,000 cases per year

TT$ 270,000 Revenue

Pepper Sauce category split of sales:

- 80% sold in supermarkets
- 20% sold in mom and pops

Route to market and margins:

- Selling through a distributor to Wholesalers and Mom & Pops
- Distributor minimum required margin after marketing investment – 18%
- Mom & Pop minimum required **mark up** – 20%

Product Details:

- Consumers can buy single unit or case
- 6 Units in 1 case

Market Back Pricing – Margin vs Markup

Margin and Markup are two different accounting terms that are often confused and even used interchangeably.

Margin is referred to as gross profit margin for a specific sale, which is the profit earned on a product expressed as a percentage of total revenue from that product. The profit margin is addressing the profit as it relates to selling price.

Markup is the retail price of a product that is expressed as a percentage of total cost. The markup addresses the profit as it relates to cost price.

Markup only determines how much money is being made on a specific item relative to its direct costs, whereas profit margin takes into consideration total revenues and total costs from various sources.

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Market Back Pricing – Scenario #2

Transportation details:

- Sea Freight – 1,000 cases per 20ft container
- Cost of 20ft container – TT$ 6,500
- Incoterms - FOB

Duties, taxes and other charges:

- Import Duties – 25% | VAT – 12.5%
- Insurance – 10% of invoice value
- Admin Costs (bank charges) – 0.3% of invoice value
- Haulage & Shipper Admin Costs – TT$ 4,500

Level of marketing investment:

- 5% of Revenue | 5% of $270,000 | $ 13,500 for marketing in this channel per year
- Target of 15,000 cases per year = $0.90 per case for marketing
- $0.90 per case split 50/50 with distributor

Market Back Pricing – Scenario #2

Market back pricing details		
Target Mom & Pop Price	**$**	**18.00**
Projected Sales (cases)		**15,000**
Projected Revenue	**$**	**270,000**
Marketing % of Revenue		**5%**
Distributor minimum required margin before A&P		22%
Distributor minimum required margin after A&P		18%
Mom and Pop minimum markup per case	$	3.00
Wholesaler Margin		3%
Number of SKUs Per Case		6
Number of cases per container		1,000
Freight per 20ft container	$	6,500
Freight per case (20ft)	$	6.50
Shipper Admin Costs per container	$	2,000.00
Shipper Admin Costs per case	**$**	**2.00**
Haulage (Trucking & Unstuffing) per container	$	2,500.00
Haulage (Trucking & Unstuffing) per case	**$**	**2.50**
All duties and taxes (% of invoice value)		25%
VAT		12.5%
Insurance (% of invoice value)		10%
Bank Charges (% of invoice value)		0.30%
Distributor marketing contribution per case	$	0.45

Market Back Pricing – Scenario #2

Scenario #2 – Spreadsheet

Market Back Pricing – Scenario #2

In summary:

To achieve a consumer unit selling price of **TT$ 18.00** with the Mom & Pop, Wholesaler and the distributor making their required margins and factoring all the duties, taxes, freight, hauler and admin charges, the FOB case price required is **TT$ 35.63**

The feasibility of this price from the manufacturer depends on the manufacturer profit objective which has to factor manufacturing costs (fixed and variable), overheads and their share of the marketing contribution.

1 USD =	7	**TT$**	Exchange rate		
				TT $	**US$**
Target Mom & Pop Unit Price				**18.00**	**2.57**
Target Mom and Pop Case Price				**108.00**	**15.43**
Mom & Pop purchase price from wholesaler (VAT inclusive)				90.00	12.86
Mom & Pop Gross Profit (per case)				18.00	2.57
Mom & Pop Markup				20.0%	20.0%
Wholesale to Mom & Pop Case Price (Vat. Exclusive)				**80.00**	**11.43**
Distributor to Wholesaler Case Selling Price (VAT exclusive)				77.67	11.10
Wholesaler Gross Profit (per case)				2.33	0.33
Wholesaler Margin				3%	3%
Distributor Case Price to Wholesaler (Vat. Exclusive)				**77.67**	**11.10**
Manufacturer to Distributor Case Selling Price				63.66	9.09
Distributor Gross Profit (per case)				14.01	2.00
Distributor Margin Before Marketing				18%	18%
Distributor Marketing Contribution				0.45	0.06
Distributor Gross Profit After Marketing				13.56	1.94
Distributor Margin After Marketing				**17%**	**17%**
Manufacturer Case Price (landed)				**63.66**	**9.09**
Manufacturer FOB price (removing impact of duty,vat,insurance, bank charges, haulage and shipper admin)				**$ 35.63**	**5.09**

A Value Chain vs a Reverse Value Chain

The market back pricing model is an example of a **Reverse Value Chain** which is particularly useful when you already have a pricing and positioning strategy for your product. This model will show what price you as the manufacturer needs to sell at to meet the positioning strategies adopted.

The challenge is managing manufacturing costs, overheads and marketing investment to ensure feasibility and also maintain a desired level of profitability.

A Value Chain vs a Reverse Value Chain

A **Value Chain** starts from the manufacturing costs and desired profit margin to determine the selling price to customers. Based upon the final customer price (which would have incorporated all the route to market costs such as duties & taxes, margins and marketing investment) the product is then positioned in the market accordingly.

The feasibility of this price from the manufacturer depends on the manufacturer profit objective which has to factor manufacturing costs (fixed and variable), overheads and their share of the marketing contribution.

A Full Value Chain

Show Value Chain in Spreadsheet

THANK YOU!