

money means business

developing the product

Think you've got the stuff to call the shots at a company like Nike, Inc., PepsiCo, Inc., or Avon Products, Inc.? If you think so, do you realize how much you have to know about managing money? No one is going to post your name on the door of an executive suite unless you've mastered the money management skills needed to be a successful decision maker. Those skills can open that door to exciting career opportunities that can take you anywhere you want to go.

Although there are no guarantees in business—as in life—you can start finding out if you've got what it takes to succeed in the real world of business by creating a new product and seeing how profitable it will be.

First, check out www.MoneyMeansBusiness.com, a great free online workshop. Select one of the three companies mentioned above and a division of that company that you'd like to work for. Ready to be challenged?

Part A. With your classmates, start by imagining yourself as the creator of a great new product. In most companies the **Vice President of Product Development** and his/her team is responsible for identifying and developing new products. Using the company profiles shown in the online workshop, do some research as you think about a new product that you believe would be a terrific addition to this company's product mix. Use the back of this sheet to make notes. You will be summarizing the key information you find in the chart in **Part B** on the right.

After researching your company's profile, identify the target customers (age, gender, income, geography, habits, etc.) you want to reach with your product.

No. of people in your target group: _____

Annual spending per person: _____

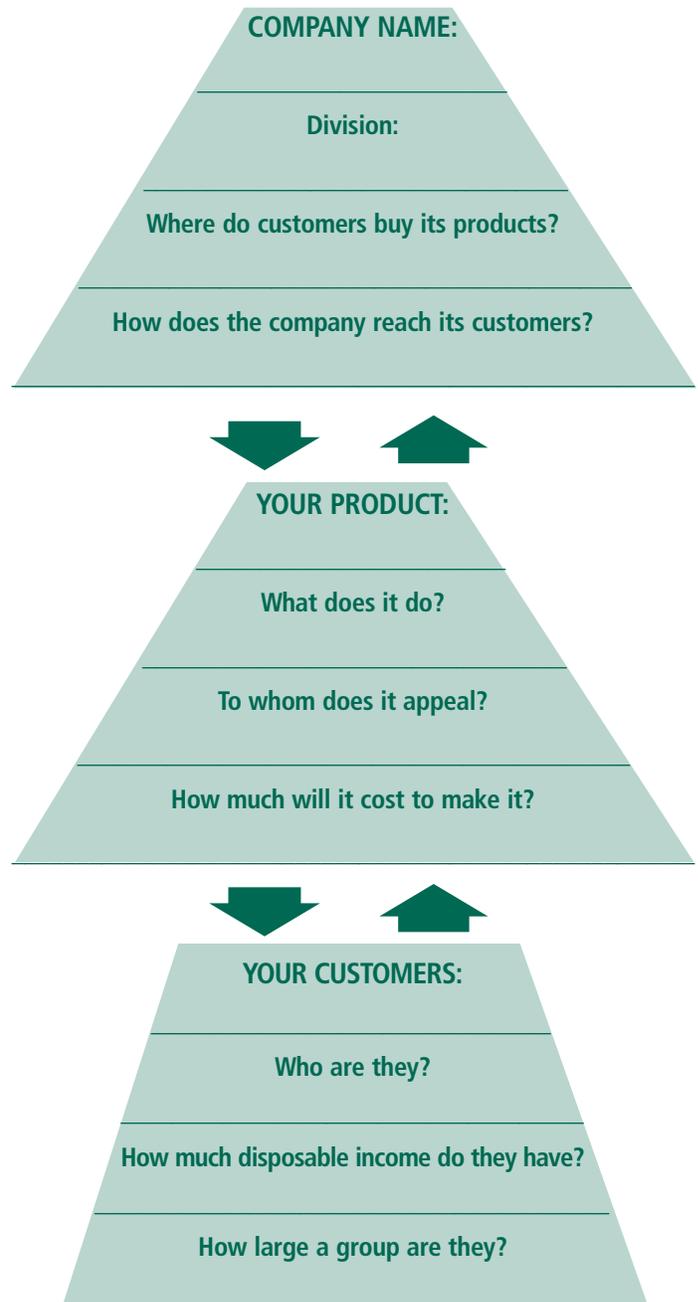
Now consider what kind of new product you might be able to sell to your customers. On the back of this sheet, make a list of new products that could help your target customers manage their lives or entertain themselves and others.

Which of these types of products do you want your company to produce?

Why? _____

Remember, though—it's a crowded marketplace out there. Are there products similar to yours already? Must your product be unique or can you tweak an existing one to reach a prime target niche whose needs have not been met? Conduct more research to evaluate and study the marketplace into which your product will be launched. Write your notes on the back of this sheet or use more paper.

Part B. Now record the results of your research so far on this chart:



What will you name your product? Try a few names on your classmates, and decide on one:

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packaging and distribution

Before a customer buys your product, it has to be packaged and sent to retail outlets or reach customers via sales representatives—adding to the cost of producing your product. How much do you think it adds?

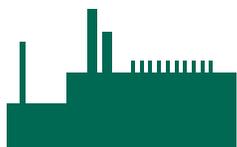
Part A. First consider the price you might charge your customer for your product at retail. For a ballpark figure, think about three similar products, add their retail prices, and divide by 3 to get their average retail price: _____. Does your product represent an improvement on an existing product or a completely new approach to this product? Consider these questions, the average price of your “competition,” and then determine the retail price of your new product: _____. Test your pricing out on some classmates, friends or family within your target market to see what they would be willing to pay for it. Should you change your price? Yes No If yes, what is your new retail price? _____

Now figure the cost of manufacturing one unit of your product by using this formula:

$$\frac{\text{Average Retail Price} = \text{Cost of Manufacturing one unit:}}{10}$$

Part B. You might have a great product at what you think is a competitive price, but how will you sell it to your customers? Stores and other places where it could be sold are called distribution channels. Check all that apply to your product, decide which two are your best channels, and fill them in below:

- | | |
|--|--|
| <input type="checkbox"/> Supermarkets and grocery stores | <input type="checkbox"/> Hair salons and spas |
| <input type="checkbox"/> Convenience stores and gas stations | <input type="checkbox"/> Web sites |
| <input type="checkbox"/> Schools and institutions | <input type="checkbox"/> Department stores |
| <input type="checkbox"/> Restaurants | <input type="checkbox"/> Shoe stores |
| <input type="checkbox"/> Warehouse clubs | <input type="checkbox"/> Specialty stores |
| <input type="checkbox"/> Direct Sales Representatives | <input type="checkbox"/> Company-owned stores |
| <input type="checkbox"/> Drug stores | <input type="checkbox"/> Other channels (explain): _____ |



Company

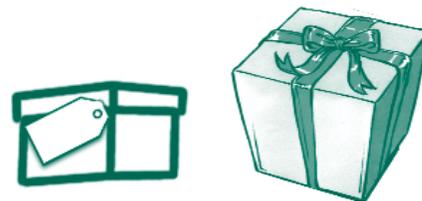
→ Distribution Channel #1:

→ Distribution Channel #2:



Customers

Now think about how your distribution channels might affect your packaging and what the cost of packaging will add to the manufacturing cost of your new product. How can you make your product stand out from others or look more valuable? On the back of this sheet, make a few notes about the kind of packaging that would attract your customers. Check off at top right whether you will use simple or elaborate packaging (you can also use something in-between), then fill in the cost using the formula shown:



Choose Type of Packaging	Simple	or	Elaborate?
	_____		_____
Cost Factor	10%		30%
	of manufacturing cost		of manufacturing cost

Now figure your packaging cost:
Manufacturing Cost per unit (from Part A) x (10% to 30%) = Packaging Cost per unit

$$\text{_____} \times \text{_____} \% = \text{_____}$$

Part C. The cost of goods is what it costs your company to produce one unit. To calculate this number, use this formula:

$$\text{Manufacturing Cost per unit (from Part A) + Packaging Cost per unit (from Part B) = Cost of Goods per unit}$$

$$\text{_____} + \text{_____} = \text{_____}$$

There’s another number to calculate, however—the wholesale cost. Your product can’t reach your customers at the retail stores unless your distribution channels get it first. That’s where the wholesaler comes in.



Wholesale

Bulk purchases by your distribution channels



Retail

Individual purchases by individual customers

Your teacher will now explain how to figure your product’s wholesale price, using a factor known as the markup. Then complete this formula:

$$\text{Cost of Goods per unit} \times \text{Markup Rate} = \text{Wholesale price per unit}$$

$$\text{_____} \times \text{_____} = \text{_____}$$

(Note: If you have different markups in your two main channels, use the average of both as your markup rate in the formula above.)

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marketing the product



So, you have a great product at a competitive price. You're a genius! But how will you get your customers interested in it? What kind of advertising will help you grab the lion's share of your market? Determining these things are all tasks for the **Vice President of Marketing**, your role in this activity.

Part A. First, check out the advertising done by the division of the company you chose to work for. Look again at their Web sites and research their current ad campaigns. Write below the type of advertising media, promotions, point-of-purchase signage or displays, or other strategies the division already uses:

Do you think that any of these types of promotions or strategies are important to continue using for your new product? Yes No

Explain why or why not:

Now look at the types of advertising your competitors use for products similar to yours and list them below. Check off the ones you think would work for your product:

Type of Advertising

1. _____
2. _____
3. _____
4. _____
5. _____

Part B. You can get the consumer's attention by saying something dramatic, funny, sentimental, or outrageous. What types of approaches work in attracting *your* attention to a product? Think about a recent purchase you made; what "sold" it to you? What kind of approach do you think would work with your product?

Now consider the media habits of your target customers and decide which medium would best attract them:

How does your choice of medium match up with your company division's current type of advertising strategy, as well as with what your competitors are doing? Don't forget to consider opportunities that exist within settings like stores, such as special displays where perhaps your product could be demonstrated, or special promotions. What about sample giveaways at community events or free T-shirts with your slogan on them? List any additional options here:

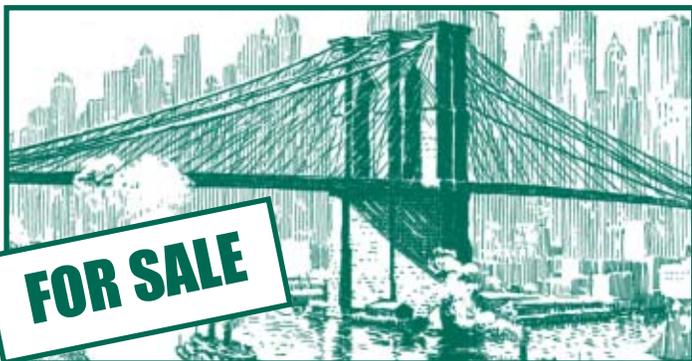
Taking into consideration all these factors, write a paragraph about your product below, including what the product can do for the customer, why the customer has to have it, and why you think your recommended advertising approaches will offer the best strategy for sales success. Use more paper if you need it.

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making the sale



Do you have the gift of gab? Can you sell someone the Brooklyn Bridge? Before you think that your persuasive nature alone could guarantee your company's success, better get a grip—you need to know the role of the **Vice President of Sales** in your company's top team of players. You're the one leading the charge as your salespeople hit the road. You're also the person who prepares a sales strategy and sets sales goals. This is your job now, and your mission is to launch sales of the new product.

To develop your sales strategy, think about your most effective distribution channel, keeping in mind where your division's line of products is currently sold and where your target customer is most likely to buy your product, and then what key information your sales force will need to know to sell in the product to your distribution channels. (Your sales force can include direct-to-consumer sales representatives such as Avon representatives.)

Part A. First use your knowledge of the new product and of your target customers, your pricing, and your ad strategy to outline a presentation below for selling in your product to your distribution channels.

Now present your new product to your sales force—your classmates. Ask them how many units of the new product they think they could sell to your distribution channels each quarter of the first year. (Business statistics are estimated ahead of each quarter, and as the quarter ends, actual numbers are compared to the estimates.)

Total number of units per quarter in the first year: _____

Part B. Now estimate or project how many units of the new product will be sold and what projected annual revenues will be for the first year (Year 1):

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total Year
Number of units to be sold x					
Wholesale price per unit (from Activity 2) =					
Projected sales revenue					

Part C. By adding the numbers in the bottom row for each quarter, you arrived at projected sales revenues for Year 1. This is a projection, not a reality. It sets a goal for the sales force, and the VP of Sales is responsible for making it happen.

Companies seldom base decisions on introducing new products on numbers for a single year. Your job now is to project sales revenue for the first three years. Complete the table below.

	Year 1	Year 2	Year 3
Percentage of growth in sales			
Number of units to be sold during the year x			
Wholesale price per unit =			
Projected annual sales revenue			

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interpreting the numbers

If it seems like the **Chief Financial Officer** (CFO) is the person responsible for all the money, that's only true in a figurative sense. It takes more than luck to make the numbers add up and keep a company on solid ground. It takes lots of business savvy. The CFO is always a member of the company's Executive Committee, the top level of management, and usually sits on the Board of Directors. The CFO analyzes the company's financial information, and makes strategic recommendations that the **Chief Executive Officer** (CEO) and the Board tend to follow. (In most large companies, there will be a Vice President of Finance and a financial department that provides the data to the CFO.) Do you have what it takes to be the CFO or a VP of Finance? Let's find out.

Part A. The money coming into the company—the projected annual sales revenue you calculated in **Activity 4**—looks pretty appealing, but it isn't all profit. First you have to subtract the cost of manufacturing the product. The gross profit on sales is profit after the cost of goods is subtracted. It is calculated on a quarterly basis:

$$\text{Quarterly Sales Revenue} - \text{Quarterly Cost of Goods} = \text{Quarterly Gross Profit}$$

Go back to **Activity 4** for your quarterly sales revenue numbers. Subtract the cost of goods per unit that you determined in **Activity 2** and fill in the **first five lines** of the chart below:

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total Year
# Units to be Sold					
Projected Sales Revenue					
Cost of Goods per Unit					
Total Cost of Goods (Cost of Goods x Units Sold)					
Total Gross Profit					
- Fixed Cost for Marketing =					
Total Operating Income					

The fixed costs of keeping your business running affect how much you can spend on the new product. One of these fixed costs is marketing. Marketing costs for a new product can run from 10% to 50% of net sales. Select a number based on how intensively you think you will need to advertise the new product. Consider the competitive environment and how widely the product will gain distribution across the country in its first year. Use your number in the chart above to **fill in the bottom two lines**.

The formula on a quarterly basis is:

$$\text{Quarterly Gross Profit} - \text{Quarterly Fixed Cost} = \text{Quarterly Operating Income}$$

Part B. Think you've reached the bottom line? Not so fast. There are gross profit margins to calculate, income statements and balance sheets to be reviewed, and plenty more if your product is going to help your company be a winner. You can learn more about these important concepts in the **Money Means Business** online workshop (www.MoneyMeansBusiness.com).

See what you've learned so far by matching the task with the role in your company:

- | | |
|------------------------------|---------------------------------|
| 1. VP of Product Development | a. decides the product's markup |
| 2. VP of Marketing | b. deals with seasonal factors |
| 3. VP of Sales | c. deals with gross versus net |
| 4. CFO (or VP of Finance) | d. identifies target market |

Answers: 1 _____ 2 _____ 3 _____ 4 _____

You're almost done. As a recap of previous activities, the class will be discussing these questions. Be prepared by thinking about your answers and writing them on the back of this sheet.

1. Why would the type of events or television programs a company sponsors be important if you were involved in new product development for that company?
2. Why is it important to understand how, where and through what means your company manufactures its products?
3. When you buy a product in the store, how many times has that product been marked up from the manufacturer's original cost?
4. Who in a company will ultimately decide whether a new product is approved for launch?

Congratulations! You now have a taste of what's needed to succeed in business money management and in creating a great new product. Now you can put your product idea to the test in the online workshop, www.MoneyMeansBusiness.com. Find out how successful it will be by determining a marketing budget, creating advertising copy, exploring media and promotions, learning about how taxes affect your profitability, and so much more. By completing the workshop, you will receive a certificate of completion from the American Institute of Certified Public Accountants (AICPA) that might help your resume snag a second look. If you're interested in a challenging career in business or accounting, be sure to check out www.StartHereGoPlaces.com as a fun, valuable resource. Good luck—it's up to you now!



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