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**The Application of Market Led Tools in the Design of BDS Interventions
Or
(Influencing the Price of Soup in Nepal)**

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The Application of Market Led Tools in the Design of BDS Interventions

Or

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In the last few years a growing emphasis has been placed on using our understanding of markets and how they work as the guiding principle for designing and evaluating Business Development Service projects. The transition from principles to implementation has been hampered to a large extent by a lack of consistency on what to measure as impact and when to measure it. Encouraging projects to measure supply can lead to distortions that are counterproductive to sustainability.

Being market oriented and demand led requires the application of new tools in the design of BDS projects. This paper looks at how some of these tools have been applied in one project in Nepal.

The results of a broad national survey on the consumption of BDS are presented and key lessons are drawn. A project hypothesis is then developed on the basis of a) this market analysis, b) the practical testing of a tentative approach and c) a lot of discussions with suppliers who will be the main implementers of the program.

The project “offer” is principally to provide feasibility support for suppliers to commercialize their BDS products for a wide range of private sector firms.

The emphasis is on pre-delivery support such as: market niche identification, product development and concept testing, tailor-made capacity building, awareness creation with the target market and in some cases trial marketing to test for feedback.

The paper suggests a range of indicators to monitor in the short and medium term. These indicators are oriented to: track changes in the increasing market for BDS, identify impact at the firm level, evaluate the viability of individual BDS products, and to monitor the overall efficiency of the project.

Jim Tomecko
GTZ

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For the last couple of months I have been plagued by a recurrent dream. It goes something like this....

It's a cool evening and I am outside standing in a queue waiting for my ration of free soup. I have lost my nice pension and somehow seem to be without very much money. As I stand there, waiting for my soup I glance at the markings on the soup delivery truck and read "ABC Soup Development Centre a Community Project Sponsored by the INGO Corporation". On the blackboard next to the truck, in flamboyant letters, I read "Tonight's Special, Chicken Soup". There really is someone out there who cares! The line moves forward, although it seems to take forever. Finally I get my free soup. By this time I am starving. I lift the first spoonful to my mouth and enjoy the warmth that it gives me as it moves down my throat. But something is not right. There is no taste to the soup! In surprise I turn to the person who was just in front of me in the line and ask if he has the same opinion of the soup. "Oh yeah," he says, "It's the same every night, even though they change the name". "Why do you keep coming back", I question. "It's free and we come for the doughnut". "We can't get the doughnut without taking the soup". "Why don't you complain", I ask. "What, to ABC? They don't listen to us, they get their money from the INGO Corporation, that's why they've been serving the same soup for years". "Can you live on this stuff" I ask in dismay. "Heck no", says another person listening to our conversation, "When we get really hungry we go to Fred's Diner, it's not the Ritz but Fred knows how to make his soup cheap and tasty". At this point I wake up shivering and hungry.

This paper is about designing a donor project, at the country level, so that more SMEs get tasty and nutritious soup at a price they can afford. The actual case occurs in Nepal, but it could be located in many places. The project is still in its design phase so any contributions to the improvement of its design would be most welcome.¹

1. Background

German bilateral assistance has been supporting the private sector in Nepal for about 20 years. During those 20 years we have been involved with business membership organisations, export and investment promotion and a great deal of entrepreneurship training. As a result of this and other donor assistance there are now several public and private organisations dedicated to supplying Business Development Services to the private sector at prices that are subsidised by donors.

¹ The author wishes to acknowledge the contributions that have been made in the process of preparing this paper: Mary McVay and Alan Gibson for their moderation of the Virtual Conference on the PMF, Marshall Bear for his work with our suppliers in Nepal, Aly Miehlsbradt for her assistance in designing the market survey, Prashant Rana for his excellent co-ordination of the process and Sandeep Ghosh of ORG-MARG who supervised the data collection and presentation.

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Because all of these older projects were winding down at the same time, the Private Sector Promotion Project, or PSP, was conceived of as an umbrella project under which modest amounts of support to the private sector could be continued. It was envisaged that this support could be delivered through the same organisations that we had been strengthening for the last 20 years. In effect, the PSP is a grant facility for intermediaries who are in the business of private sector promotion. To a large extent, the bulk of these intermediaries have been conditioned to expect grants so that they can continue to implement the same kinds of programs that they have been delivering to the private sector for years.

Now in 1999, we come along and say, “We are experiencing a paradigm shift, so SMEs should start paying more for their BDS”. Our partners’ reaction to this is predictable. “Hey? We just got used to delivering **your** standard product (and making a reasonable living on the difference between what it costs and what we charge you) and anyway the SMEs won’t pay”. “True.” We think to ourselves. “They are unlikely to pay for the same product, no matter what you call it, as long as it is the same as it has been for the last 20 years.”

So now, instead of finding ways to increase the supply of more services, (which was just starting to get easy) the challenge for the donors is to find ways to encourage suppliers to make cheap, tasty and healthy soup that can be sold at affordable prices to SMEs.

1.2 Project Goals

Like most current private sector projects which are conscious of globalisation and the growing reduction of tariff barriers, the overall goal of the PSP is **to enhance the competitiveness of Nepal’s private sector**. For this to happen there are many conditions to “get right”, including good governance, a reliable legal and regulatory framework, a properly functioning capital market, etc. Accepting that all of these are too diverse to address in one project, the PSP has narrowed its focus, along with other donors, to enhancing the quality and productivity of entrepreneurship, management and to some extent the skilled workforce.

1.3 The Key Hypothesis

The main instruments for influencing the quality and productivity of the private sector’s human resources have typically been in the form of non-financial promotional services. In the last few years, however, there has been a growing sense of discomfort, among donors, concerning the quality of such interventions in SME promotion. Hence, the initiative to “take stock” and generate a set of new guidelines for projects operating in this field of Business Development Services.² One of the most important changes, besides the popularisation of the term BDS, was the call for greater use of market principles in designing and implementing BDS projects. Most of those involved with this conference are familiar with this literature, but there are two important hypothesis behind this shift in approach which are essential to underline.

² Gibson, Alan, Business Development Services- core principles and future challenges, Small Enterprise Development Vol. 8 No 3, IT Publications, September 1997.

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The first is that a more efficient BDS market should lead to a better allocation of resources and, as a result, should be more cost effective for donors and businesses alike. Hence the need to define what an "efficient" market is. In their paper "Designing BDS Interventions as if the Market Mattered", Field and Bear describe **effective demand** as "when the recognition of the need to solve a problem intersects with the willingness to pay for a solution to the problem". Similarly, **effective supply** is described as, "when the capacity exists to both solve problems (delivering quality products) and to change the perceived value of the product in the eyes of the customer".³ A healthy or effective market is when these two conditions overlap. The implication is that, depending on the strength or weakness of either the supply or demand, donor interventions need to be tailor-made to enhancing demand and/or removing supply constraints. This does not mean that we no longer work on the supply side but rather that the nature of our interventions fundamentally shifts. This shift on the supply side is from quantity to quality, while on the demand side we shift from identifying needs to stimulating wants.

The second key hypothesis, which is implicit in this approach, is that there is a direct relationship between the increased purchase of a "good" BDS and the improved performance of a business. This is a hypothesis which, as far as I know, has yet to be proven, although most of us in this field feel, intuitively, that it is correct. The assumption is that if we can somehow get the businesses to pay more for such services, then they must be of value. Otherwise nobody would buy them!

By inference this leads to a project in which the objective is to **increase the consumption of "good" BDS by businesses at market prices**. The project's strategy is then: a) the stimulation of effective demand and, b) the removal of supply constraints and c) the use of BDS suppliers as intermediaries.

1.4 The Rise of the Supplier

Not so long ago a Swisscontact project⁴, here in Nepal, announced that it would accept offers, on a contract basis, from suppliers who were qualified to deliver BDS to SMEs. There were 78 applications from different suppliers. 10 years ago there were perhaps one or two public organisations that could do this. The rise of the supplier is indeed a significant phenomenon. As could be expected, not all of these 78 were qualified, but about 15 of them were credible.

This growth in the number of suppliers is a response to the increasing use of non-governmental (non-profit and for-profit) organisations in the design, delivery and evaluation of foreign development assistance. One can not deny that this trend is positive. It is a clear indication of the increasing professional competence that can be readily found even in many of the least developed countries. It is not uncommon to find some of the heads of these organisations on salaries comparable to what one might get in any part of the world. In Nepal, the typical billing rate from a supplier, to a donor, for a

³ Michael Field and Marshall Bear, Designing BDS Interventions as if the Market Mattered, MBP/DAI Discussion Paper, September, 1999

⁴ The Swiss Development Corporation funds the Small Industry Promotion Project, which has provided PSP excellent collaboration and co-operation in implementation.

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standard person/day is about \$40. Is it possible to match this rate with BDS income from the private sector? Probably not, but it may also not be necessary.

The idea of selling their services directly to the private sector is not a new one for many suppliers. Indeed many have tried in Nepal with varying degrees of success. In the last ten years with the liberalisation of the telecommunications sector, hundreds of small STD/ISD suppliers have emerged and are thriving on sales to businesses and the public. The early successes have come in services like communications and computer software, which serve the general public as well as businesses. Other service sectors such as advertising and accounting services have also done well. These service providers, with their established links to the private sector, could do more in terms of high impact BDS. For the rest of the service providers (the generation trained in the more traditional BDS by scores of donor projects), working in the private sector is a tough and demanding market where clients negotiate hard on price, as a matter of principle. For them it is much easier to sell themselves in the donor market where the indicators for success are far more subjective and the rewards are significantly higher.

Many of this second type of suppliers do have some contact with the private sector but the proportion of their turnover from the private sector would usually not exceed between 5-10%. They only operate in this market when they have excess capacity and there is no alternative billing possible from a donor. A typical donor, such as a rural development project, will ask the supplier to run an enterprise start up program in some remote village where the impact will only be loosely monitored by staff that have little exposure to enterprise development M&E systems. Similarly an organisational development supplier will be asked by a decentralisation project to spend six months with a Village Development Committee to establish transparent systems and procedures. These are important inputs to the success of these projects and ones for which the donor is prepared to pay.

So how does a market-oriented project respond to two sets of suppliers, the first set which can maximise their returns from donors operating in the social sectors, and a second set that is already in the market but is ignoring their full development impact? Certainly not by complaining about the state of the market! A certain understanding is required of the suppliers' market as well as the overall market for BDS.

There are two main factors to consider in the suppliers market. The first is the issue of **opportunity cost**. All things being equal, any supplier will try to maximise its returns per service-day, so naturally top priority will go to the clients who can pay the most. In a situation where there is a weak demand from the private sector, it is more than likely that the rates offered by the donors will be higher than from the local businesses. But, almost all service businesses have flexible billing rates, whether they are doctors, lawyers or marketing firms. It is not unrealistic to expect to see this in local BDS suppliers as well. Why do service providers have flexible billing rates? Because, they frequently have excess capacity. This excess capacity can be profitably employed even at rates well below what they charge to premium clients. This method of pricing is well known in the travel business where it is more profitable to sell heavily discounted tickets than to see a plane fly at half empty.

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The second issue for the supplier is **the market risk**. This is a market in which most of the suppliers only operate on an opportunistic basis. They meet someone, by chance, who recommends their services; they do the job and then get back to their more lucrative market. Because they are preoccupied with buyers from the upper end of the market, their understanding of the different market segments is very limited and anecdotal. If, on the other hand, they can see an emerging domestic market where they can employ their core competencies in a profitable way, then the possibility of expanding into this new market can become more attractive. When this is also combined with clear signals that emphasise a reduction in donor demand for the traditionally subsidised BDS, then one finds that the more enterprising suppliers come forward. The starting point for this is to develop a more intimate understanding of the BDS market as a way of identifying higher value-adding BDS products that are potentially viable for suppliers.

For both sets of suppliers a change is required. The objective however is the same, namely market expansion through either market development (same product in a different market), product development (a new product in the same market) or diversification (a new product in a different market). For the suppliers selling to donors the change involves seeing that there is a lucrative private sector that is ready to buy modified products from them. For the existing commercial suppliers like accounting firms, who are already selling mainly to the private sector, their new markets involve exploiting the retail end of the segments and adding new products that compliment the ones they already supply. A typical example, for this second type would be for an accounting firm to add business planning to its range of services. In both cases market knowledge is critical for motivating suppliers to explore these new opportunities. Understanding the market and how it operates becomes the first place for a promotional project to start.

2. Assessing the Market for the BDS in Nepal

Aly Miehlbradt, who worked with us on some of this material, has explained in detail some of the methodologies of some of these tools in a very hands-on way. The aim in this paper is to explain how some of the data can be presented in a form that can assist suppliers to more effectively move into the BDS market in a less risky way. There were three main objectives in doing this market analysis: a) to give us a clear idea of the markets and its segments, b) to give ourselves some credibility with suppliers and c) to provide some insight into the design of more market-oriented BDS.

In a project where the objective is clearly to get the private sector to spend more of their own money on BDS, it is essential to know how to appeal to this market. After all, we are now competing for a greater share of their expenditure on bought-in goods and services. Even if we were to know, for example, that most of their problems are related to poor management, if the businesses themselves are not aware of this and are not prepared to pay for this then this knowledge is of little use.

With the objective of trying to identify higher value-adding BDS products that could be made and sold to the market in Nepal, the PSP⁵ designed a survey for assessing the

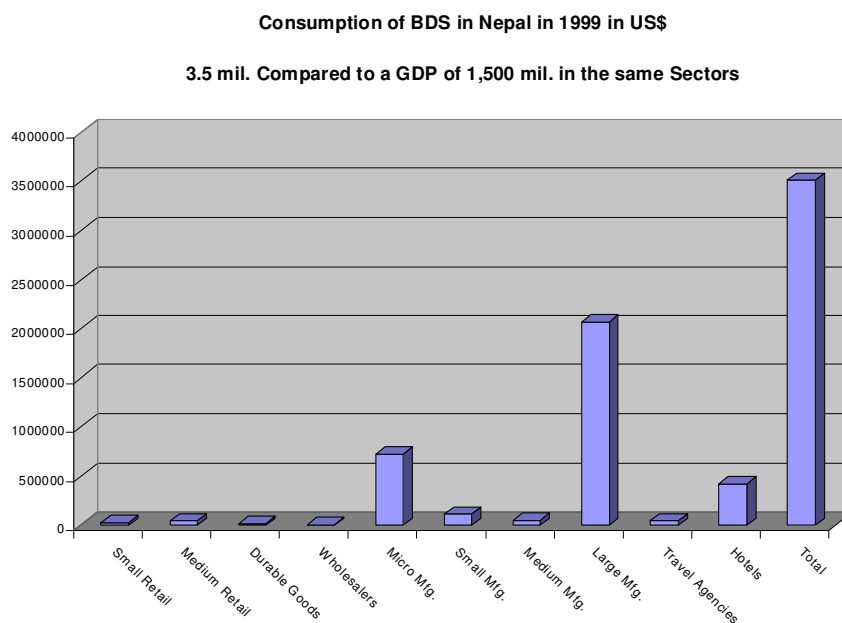
⁵ The team for this survey included Prashant Rana, Marshall Bear, Aly Miehlbradt, and Sandeep Ghosh of ORG-MARG.

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total consumption of different BDS by the private sector in Nepal. In addition to quantifying the total volume of consumption we also wanted to know who the main consumers were, where they were located, why they were buying or why they were not. The survey covered 504 firms from 10 different strata such as micro-manufacturing, small and medium retailers as well as hotels and travel agencies. The sample was taken from the main urban areas of the country and cost approximately DM 10,000 to complete. A joint venture marketing research company, very familiar with data gathering and sampling techniques, implemented the survey.⁶ Our operational definition for BDS was any bought-in service. This included all forms of advice, bought-in training, computer services and communications (not including a firm's regular telephone bill), etc.

2.1 The BDS Consumption Pattern

The next few tables give an impression of the kind of data that was collected in the survey. The first chart presents a picture of the total consumption of bought-in services and identifies the main customers.

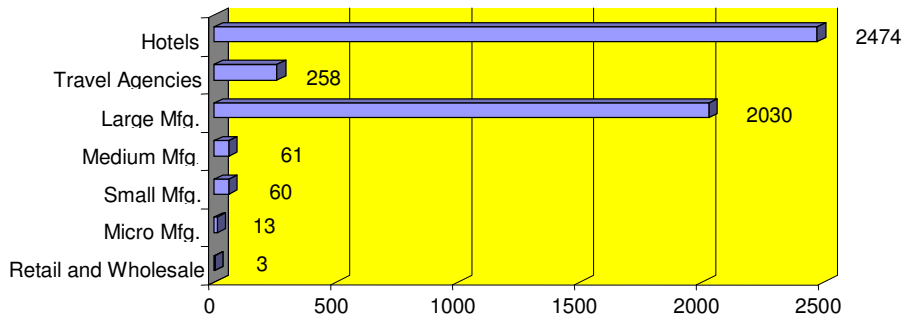


This picture of the different market segments becomes more interesting when we consider the average amount that a business in each segment spends on an annual basis. The next table identifies the “big spenders”.

⁶ The firm used was ORG-MARG, a branch of an Indian/Dutch market research company of about 17,000 employees.

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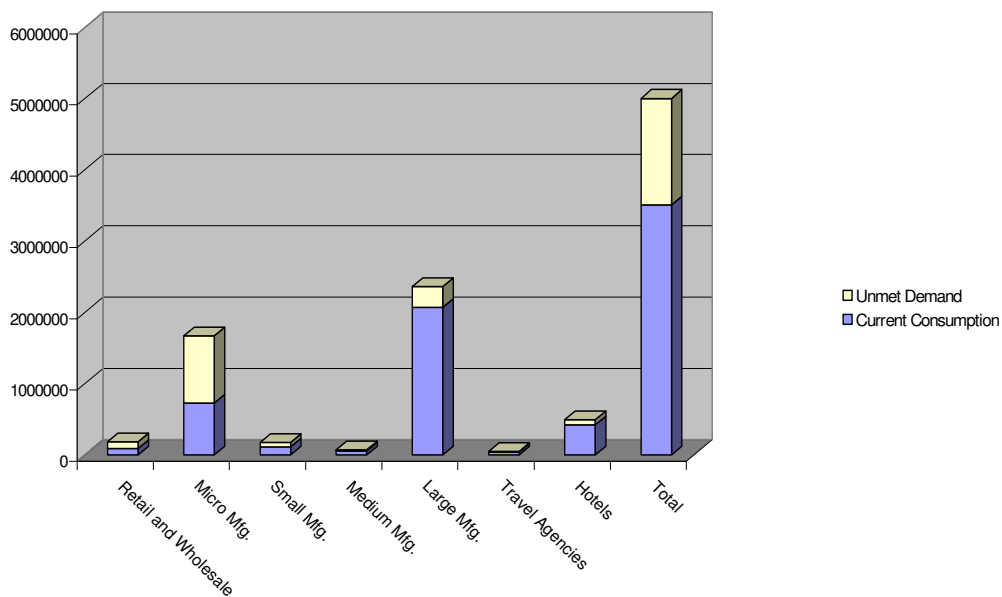
Average Expenditure per Business per Year by Segments in US\$



In this table one can see that hotels, on a business by business basis, buy the largest amount of BDS. If we look a bit further into our data on the hotel sector we can see that the most significant BDS purchases are for accounting and taxation, advertising and for participation in trade fairs.

In addition to this data on current consumption it was also possible to estimate the existing unmet demand. This was determined by sorting out the respondents who considered a particular BDS to be important to the success of their business and at the same time were not buying the service and moreover who were not able to obtain this service from within the business. These are good prospective clients. The table below shows where the unmet demand is greatest.

Current Consumption and Unmet Demand by Segment in US\$

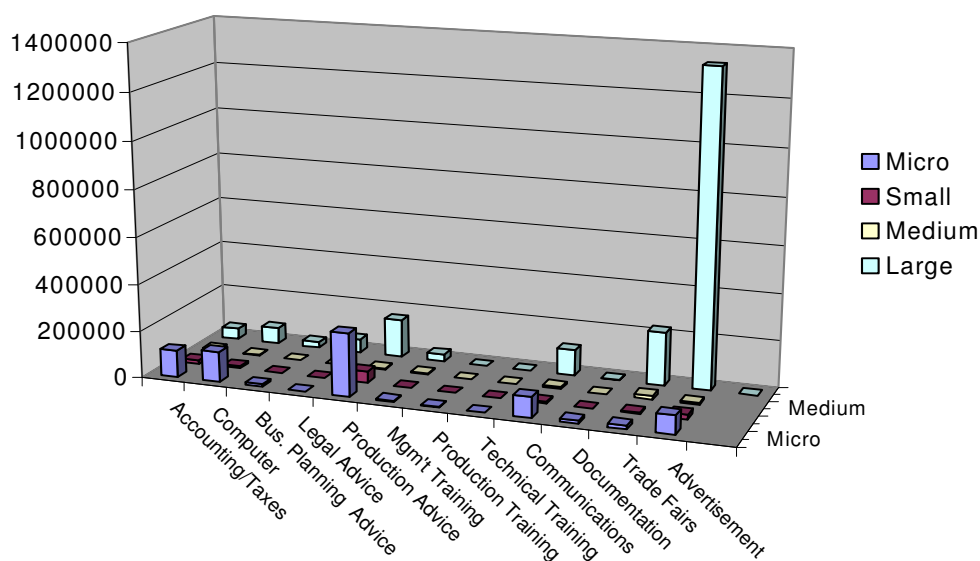


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In this case, the unmet demand is greatest from the micro and small manufacturers. Our assumption as to why this unmet demand is so large is that most of these businesses do not know how to avail themselves of these services. Whereas the larger enterprises are much more capable and confident in finding suppliers as and when they need them. Nevertheless this information does point to the largest current unmet demand for services being at the micro level.

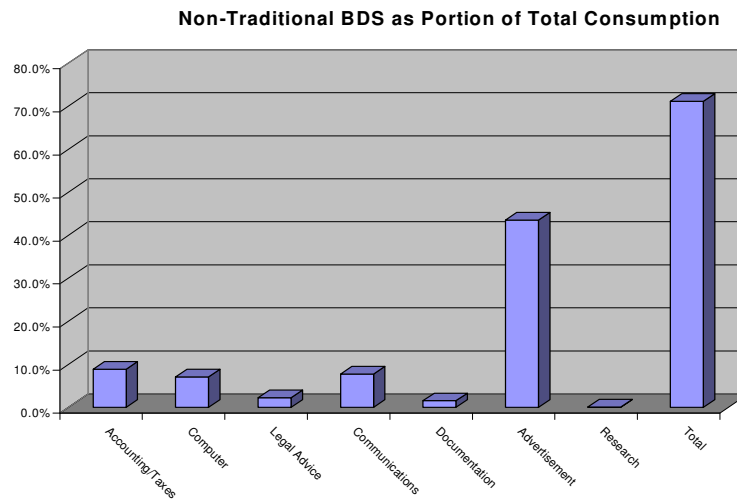
This next chart isolates the manufacturing sector and looks at the demand pattern by size. What is interesting to observe from this chart is, that with the exception of advertising and trade fairs, the aggregate demand in the other BDSs is as great from the micro sector as it is from the large. This is principally because of the number enterprises in each category: 55,700 for the micro sector (less than 10 employees), 1,840 in the small sector (10 to 19 employees), 875 in the medium sector (20 to 49 employees) and 1,020 in the large sector (50 employees and above)

Consumption of BDS by Size of Manufacturing Enterprise

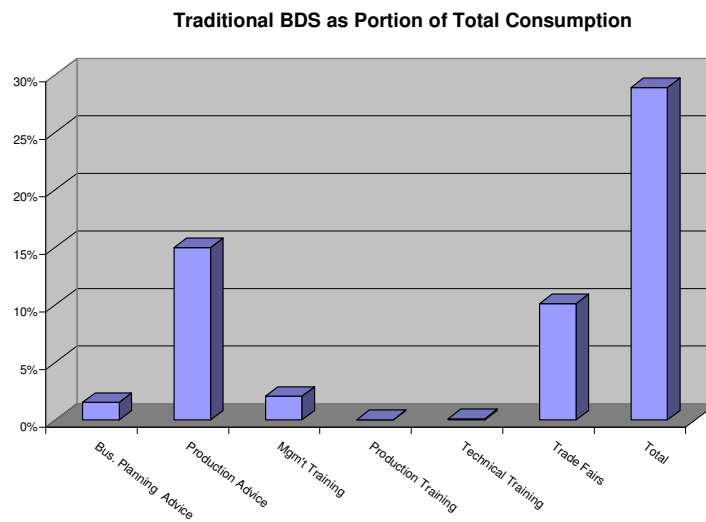


Looking at the services themselves, we have divided them into two categories: the first category comprises those services in which donors have **not** been traditionally active. These include services such as advertising, documentation and communications, while the second group contains those where donors have been involved for some time such as management and production training. The table below shows that about 70% of the BDS, which are currently bought in Nepal, are ones for which there is usually no assistance from donors.

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This compares with about 30% of the typically assisted BDS where the most popular are production advice and trade fairs.

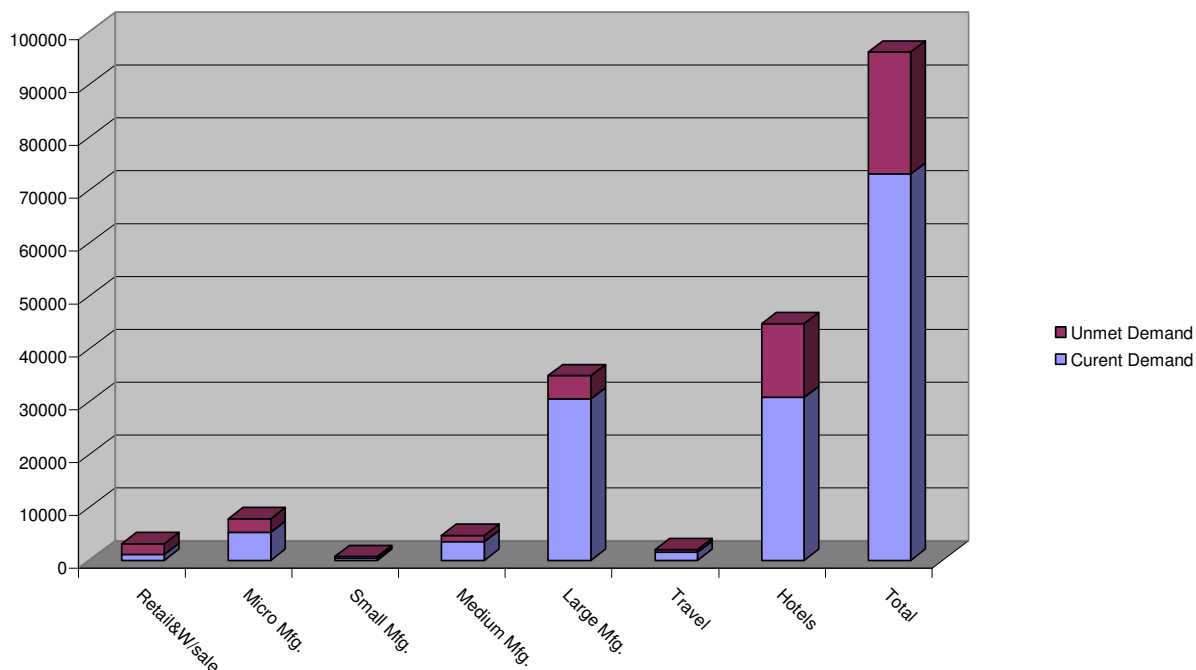


2.2 The Market for Management Training:

Now let's look at one specific service, management training, one of the BDS most typically supported by donors, to see how large the actual volume of business is and who the major consumers are and how we can use this data to design new products.

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Current & Unmet Demand for Management Training in US\$



Here we can see that the largest market for management training is in the hotel and large manufacturing sectors. Third place goes to the micro-manufacturing sector. The hotel sector consists of about 170 different registered businesses in Nepal. Our data tells us that the current volume each year for bought-in management training in this sector is \$30,800 and that the current unmet demand is another \$14,000.

We also know that the buyers are expecting to spend 15% more on this service in the next year. This leads to a total anticipated demand in the hotel sector for the year 2000 of \$51,520. Our survey data also tells us, for each service field, why the buyer selected a particular supplier. In management training the most common response was, "because the supplier tailor-made the training according to the customer's need". This suggests that the hotel market is less concerned with cost than it is with results and that there is an expanding market for reasonably priced management training specifically aimed at the hotel sector.

At this point we can turn to the results of our Focused Group Discussion with the owners of small hotels. Focused Group Discussions (FGDs)⁷ are another marketing tool for identifying key benefits or product features when a target market is already identified. In this case we asked eight hotel owners, who had purchased management training in the past, to come and discuss management training for two hours. The results of this discussion were that they wanted training to: build confidence as well as skills; be

⁷ In all nine FGD from the different market segments were conducted with buyers and non-buyers of BDS. In each FGD 2-3 BDS were discussed in order to get an idea about product features.

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practical with a lot of repetition; enhance the communications skills of the staff; be specific; use professionals; teach in the Nepali language; and arrange for pick up and drop off of staff. This is sufficient information to design a package of training courses aimed at the hotel sector.

What can we learn about management training and the large manufacturing sector? There are about 1020 large manufacturing establishments in the country. Only about 15% of these businesses are purchasing management training. These 15% (153 enterprises) spend on average \$200 per annum or cumulatively \$30,600 on management training. By looking at our data we can see that this sector spends another \$163,200 on production advice. One possibility for expanding the management training market could be to combine management training with practical production advice where the combined market is \$193,800.

At the micro-manufacturing level where the expenditure per business is exceptionally low, but the relative unmet demand is high, the tendency for most businesses is to spend 37% of their budget for bought-in services (\$268,400) on production advice. Management training could be developed to help these owner managers identify ways to save on these costs or at least maximise their returns from this expenditure.

Similarly at the micro and small manufacturing sector we can see that another \$128,000 is spent on accounting and taxation services. Again this represents a large market for helping these businesses identify how to use these services most effectively. One of the recent success stories of the PSP has been to assist one service provider to sell a 5-day course, specifically targeted to this group, on how to prepare accounts that comply with new Value Added Tax regulations.

Another conclusion that can be drawn from the FGDs with the smaller sectors is that they feel that there are no BDS currently on the market, which are specifically aimed at them. This may account for their low relative spending while compared to some of the larger enterprises.

2.3 The Availability of Free Services, How Distorting are They?

We asked all of those in the survey, that purchased a BDS product, for the main reason they felt compelled to buy it. The responses were interesting. For accounting services as well as legal and technical training the main reason was to comply with government regulations. All of the other services were purchased because the owner managers felt that their business was becoming too complex so they needed help from outside. The second and third most significant reasons for buying out-sourced services were either that the owner managers had been advised by a friend or colleague to buy the service, or they had seen a competitor using the service. Although price was offered as an option for answering this question, it ranked relatively low.

It would be unwise to reach the conclusion that price is not an issue. The Focused Group Discussions for **non-users** pointed to price as the main factor behind the decision to buy or not to buy, while the second factor was the quality of the service. This tendency is strongest at the lower end of the market where smaller businesses have a lower propensity to spend on BDS. For example, in the accounting and taxation service

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only 15% of the sample at the lower end were buying while at the upper end this was 66%. The FGDs of **non buyers**, at the lower end stated “price’ as the main reason behind their decision not to purchase, their second reason was that “government regulations did not yet apply to them”. The conclusion to be drawn is that non-buyers and micro businesses are the ones most sensitive to price. But this does not imply that they will only use the service if it is provided for free.

The incidence of free purchases was highest in the following three services: Advisory in Business Planning and Management, Advice in Production Processes/Operations and Management Training. In informal price sensitivity interviews with consumers, there were complaints about the prices of management training going up. “We used to pay Rs 100 for a 5 day course now you want us to pay Rs. 700, why?” But subsequent experience has pointed to the fact that even these consumers are prepared to pay (see section 3.2).

Anecdotally, in an interview with a recent customer who had attended and paid for a VAT training course, one entrepreneur informed us that the same training had already been offered to himself and others by the tax department for free. When questioned as to why they had not attended the free training the answer was, that they would rather spend \$12 to attend a course conducted by a private supplier than go to one conducted for free by the Government.

It would appear, from Focused Group Discussions, with some BDS **users**, that price is not the main criteria for many of them to use or not to use a BDS. What is more important is its immediate relevance to solving an identified problem or to saving money. Customers are looking for specific solutions, and as long as the price is reasonable they are prepared to pay.

This kind of data enables us, as the donors or facilitators, to persuade the suppliers that there is indeed a market for traditionally sponsored BDS and that subsidies can be reduced, even in a least developed country where the average per capita GDP is \$212.

This data also suggests that the distortions related to price are felt stronger in the **suppliers’ market** rather than in the consumers’ market. The suppliers are more reluctant to charge a full cost price because of the resulting pressure to “perform”. When they price their products higher they know they have to offer a better product, and this requires greater effort in both product design and in the delivery where the best personnel have to put on the job. As long as some of the suppliers can earn more with less effort selling a “low priced product” to donors, this distortion will be strong.

2.4 Awareness, Reach and Retention

The following table illustrates the percentage of businesses from the sample that are aware of each service. Then out of this sample of businesses that are aware of the service, what percentage is fully aware of it. Then again out of this sample what percentage have tried the service, and then finally out of this third sample that have tried the service, what percentage have purchased it more than once.

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The relevance of this data is to identify where the more significant marketing gaps are. Do people simply not know about the service? (are unaware of it) Are they aware of it but do not understand it? If they are fully aware of it are they trying it?⁸ If they have tried it are they satisfied with it? These questions can be addressed using awareness, reach and retention tables.

Service Type	% Aware	% Fully Aware (awareness)	% of Aware Who Tried (reach)	% of Tried Who Repurchased (retention)
Accounting/taxation	99	69	47	94
Computer	79	58	35	85
Bus. Planning Advice	94	54	13	66
Legal Advice	94	61	25	72
Production Advice	81	45	15	89
Management Training	88	60	28	63
Production training	80	48	12	61
Technical Training	82	47	23	56
Communications	98	75	56	96
Secretarial	78	45	18	97
Trade Fairs	96	58	27	73
Advertising	100	75	58	88
Research	75	45	4	100

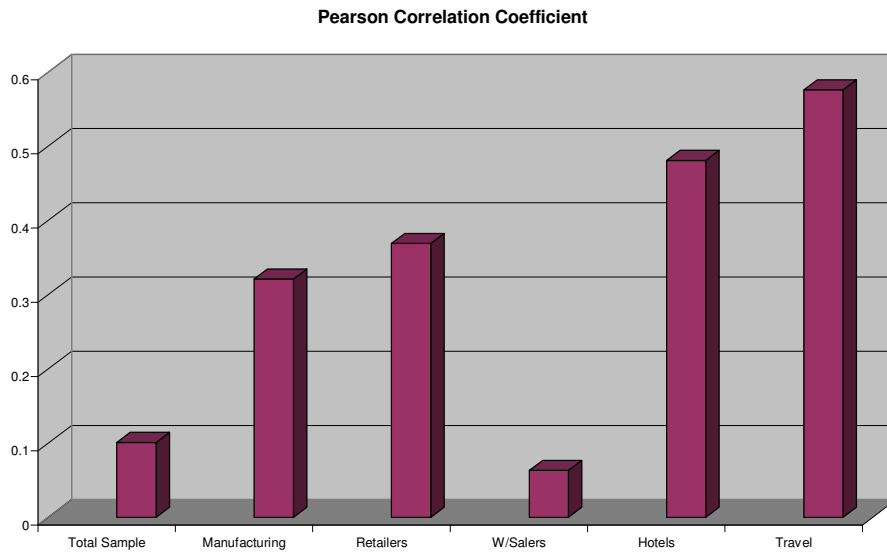
This information shows that awareness levels are highest in areas like communications, advertising, and accounting. The percentage of people who are aware of the service and have actually tried it is much smaller. Production advice and training as well as business planning advice are particularly low in this case. Even though these are low, the retention rate for example in production advice, is quite high at 89%. In fact, most of the retention rates are good, even in business planning advice where the reach is very low. One implication of this is that if trial can be induced then a repurchase is highly likely. Another implication is that retention rates are lowest in production training, management training and business planning advice, perhaps because the products being offered are not of sufficient quality to encourage repurchase.

In this survey it was not possible to establish price elasticities for the different services,⁹ but it was possible to establish a correlation between the incremental growth in firms and their propensity to spend more on BDS. The following table shows the business sectors that are most willing to spend more on BDS as their size grows. All sectors showed that there is a positive correlation between business growth and purchase of BDS. Sectors like the hotels and travel agencies, however appear to be most ready to spend additionally on BDS as their businesses grow.

⁸ The level of awareness was determined by asking the respondent to describe the service. The enumerator then checked this reply against a standard and predetermined definition supplied by the project, and then judged the level of awareness.

⁹ During the survey exact turnover rates were not identified on a business to business basis, rather midranges were taken. For this reason precise elasticity measures could not be used.

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2.5 Key Lessons from this Market Analysis

The exercise of undertaking the market analysis, in itself, was a valuable learning tool and contributed a great deal to our understanding of the market and how we should respond to it. Aside from providing us with valuable data that can be effectively used for an M&E system, the survey gives a realistic picture of all bought-in services by private sector firms in Nepal. Some of the important findings are:

- ◆ There is a large market for BDS, in fact much larger than we had assumed.
- ◆ Even the very small enterprises are spending on BDS.
- ◆ These small enterprises, however, do not feel that there are interesting products for them on the market. In fact the unmet demand is highest in this segment.
- ◆ The market, in general, is looking for tailor-made solutions to their problems.
- ◆ Only about 30 % of BDS expenditure is going into areas traditionally supported by donors.
- ◆ The gap between being aware of a product and understanding the benefits are very high in traditionally supported BDS.
- ◆ Relatively low retention ratios in these traditional BDS point to low acceptance rates and the need for product innovation and or availability.
- ◆ The market for BDS is growing. There are substantial gaps in it right now, and service-specific market surveys can be used to identify these gaps.
- ◆ There is a positive correlation between business turnover and BDS spending. Therefore as businesses grow so will their spending on BDS.
- ◆ Certain market segments are likely to spend more on BDS as their turnover increases (hotels and travel agencies).
- ◆ Once market niches have been identified, Focused Group Discussions can be used to determine product features. Following this, price-sensitivity tests can determine the product's viability.

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3. Testing the Practicality of Being Market Driven

Making a profit from the right product involves being able to identify market niches that have not been fully exploited, tailor-making the product to this niche and then advertising its availability. While trying to identify some basic principles on which to base the project we tested an approach, in two cases, which was aimed at pre-delivery support for developing a new BDS product.

3.1 Case # 1 Skills Development:

Our first example involves a technical education facility located 10 Km. outside of Kathmandu. A few years ago it almost closed down most of its facilities because their traditional donors stopped subsidising them. They then converted a large portion of their training rooms into production space so that they could take on job orders to meet their payrolls at the end of the month. As yet they have not been able to commercialise their training. This organisation approached the project for a grant to help them add another year to their long-term auto mechanics course. We suggested that this would only lead to the need for more continuous subsidies (about \$5,000 per annum).

We proposed that, if they felt that auto mechanics training was their core competence, they think about how this training capacity could be more profitably used. They came back with the idea of selling training in basic auto maintenance for owner-drivers of cars. They felt that taxi owners would be the ones most likely to pay a full fee for such a course. The PSP assisted in a short orientation for their staff on how to conduct a brief market survey. The aim of the survey was to identify what kind of training taxi drivers were looking for, what hours of the day and days of the week would suit them and how much they would be willing to pay.

From this brief market survey they learnt that the owner-drivers of taxis were not such a big market but rather that new car owners, who had just spent a large sum on the purchase of their car, were willing to pay commercial rates for good training. They were able to identify the most suitable times of day for the training, fix a price that gave them a small profit and design a training program which matched the needs of the market. To reduce their market risk, the PSP paid for two advertisements in the local newspaper and regular ads on the local FM radio station. In the first week after the ads, the school received 375 phone calls for more information. This led to 175 persons coming to pick up the application forms. 75 persons then put down a deposit on the training to secure their places. The school is now on its fifth training course. These courses now provide the trainers with additional financial incentives and make a contribution of \$6.50 profit per head to the running of the school. Keep in mind, that all of this was done with the same staff, a little training, some willingness to experiment and a bit of advertising. The school is now developing a brand name for this training so that its recognition in the future will require less advertising. The school has now started to target private firms to train their drivers in the basic principles of motor maintenance. The PSP is currently exploring with the school how it can follow the same approach for its printing training facility.

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3.2 Case # 2 Management Training

In another example, a management-training organisation approached the PSP to run a course in accounting for small businesses in four different small towns of the country. In the past, they have normally charged Rupees 100 (a little more than \$1) per participant for a five-day course. The course sponsor has always paid the difference between the real costs and the fees collected from the participants. We explained that we wanted to move to a full cost recovery position as soon as possible and that we were looking for training products that attracted a higher fee from the participants. The organisation rethought its proposal and came back with the idea of combining their traditional course in accounting with guidelines on how to comply with the regulations of a newly introduced Value Added Tax.

We agreed to pay for the product development (materials development with the Tax Office) and the advertising and some of the costs for a trial. The course was priced at Rupees 600 (6 times their normal charge). Their traditional clients objected to this raise in fees. But, after advertising at this price, the organisation was oversubscribed with double the number of applicants that they could handle. The course was replicated in three other towns with similar results. The initial feedback from this experience was that the course has stimulated a demand for additional courses and for follow up advisory services. After owner-managers attended the course and understood the complexity of maintaining proper accounts for the Tax Office, they wanted to have their cashiers trained in how to maintain vouchers that comply with the standards set by the government. The organisation is now in the process of arranging a special training course for their own accounts training staff, with the Tax Office, so that they can start to conduct a whole range of courses related to income as well as value added tax. Future courses are being priced at Rs. 800. This price represents 70% full cost recovery on the course.

3.3 Key Lessons from these two cases

It would be wrong to reach too many conclusions from just two cases but these two experiences suggest that:

- ◆ If the donors send the right signals to the suppliers many of them are prepared to make significant efforts as long as they can see an opportunity.
- ◆ In these cases, there were unexplored BDS market niches that could be exploited because suppliers were motivated to look for them, and their market analysis was good.
- ◆ The private sector is prepared to pay so long as the package is attractive.
- ◆ Suppliers are prepared to sell to the private sector at prices far below what they get from the donors.
- ◆ Paying customers are much more demanding and require suppliers to be much more inventive in finding value-adding products.
- ◆ Those who were attracted, in the auto maintenance case, were mainly medium scale businesses and middle class car owners, while in the case of the VAT training; the participants were mainly small manufacturers and retailers in towns far from the capital. In other words, it was not just the rich or the large enterprise sectors that were prepared to purchase BDS.

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- ◆ A focus on pre-delivery costs (product development, advertising and capacity building) rather than delivery costs makes it a lot easier for the donor to determine product viability, and to identify exit strategies consistent with sustainability.

4. Designing Interventions

In formulating an intervention strategy for the project, two specific angles were considered. The first involved taking a few sub-sectors (garments, carpets, metal, wood etc) and working with the commercialisation of any BDS for these sub-sectors. The second approach involved identifying certain BDSs and then trying to develop them for any market segment in the private sector. The first angle was dropped, in the case of Nepal, because of the limited size or narrowness of sub-sectors in a small economy. It was felt that choosing one or two sub-sectors would, at the end of the day, have a limited impact on the BDS market as a whole, although this approach may have a good effect on the chosen sub-sectors. The other alternative was to select a number of BDSs and to then attempt developing them, with suppliers, to a stage of commercialisation for a wide range of sub-sectors (niches). Given the experimental nature of the project this alternative offered us the widest range of options for testing different strategies.

The second step in following this decision was to choose the BDSs themselves. The list of services was large. Four criteria were used to look at this issue.

1. If the market for the BDS was already strong (consumption high and supply adequate) then, we felt the justification for a donor to intervene was weak. This criterion tends to work against services like advertising, production advice, communications and computers, where the data indicates a strong market.
2. If the services are known to have a high value in other developed markets (in other countries) but this has not yet happened in this market (both supply and demand are weak). These are services that should typically be supported. This tends to favour services like, management and technical training and business planning and production advice.
3. If the service had a large unmet demand, which was unlikely to be addressed in the immediate future by suppliers. In the case of Nepal unmet demand is greatest in the micro sector. The services where the unmet demand is greatest are production advice, computer services and business planning advice.
4. If the donor has a particular historical experience that provides leverage with either the consumers or suppliers so that the intervention can be more powerful by harnessing these assets. In Nepal this tended to favour services like management and technical training, trade fairs, as well as production and management advice.

In the end, a priority ranking was established for the test phase. The services included: management development (including OD and HRD), production advice (including ISO), and trade fairs in the first place; technical training, accounting and advertising in the second place; and the rest in third place. The purpose of the priority listing was to determine the project's "level of effort" in promotion. For example, if an opportunity came up in the third priority group but the level of effort from the project was not great, it would receive support. This approach allowed the project to respond according to the

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demands placed upon it, but with greater or lesser effort depending on the project's priority as determined by the four criteria given above.

Taking into consideration a) our market survey, b) the experience of these two cases and, c) additional discussions with suppliers, and d) our prioritisation, we developed the following hypothesis:

If suppliers are more capable to: identify their core competencies, assess the demand for service products related to these competencies, design relevant products, and deliver solutions at full-cost pricing, then demand will be stimulated through satisfied customers.

This hypothesis then conditioned our provisional offer to suppliers. This offer was discussed with them individually and then collectively in a small group of the owner managers of the main suppliers in the private and public sectors.¹⁰

4.1 The Project Offer

The project offer was summarised as: ***Feasibility support for suppliers to commercialise selected BDS products to a wide range of private sector firms.***

A simple analogy to describe the relationship between the donor/facilitator and the supplier in this case, is one of a venture banker with prospective partners in a new venture. The banker provides experience and some risk capital to stimulate innovation but the bulk of the equity, risks and rewards are with the partner. The market information gives the banker the basic knowledge to make first hand assessments regarding the feasibility of the proposals as the supplier makes them. The investment size or "level of effort" contributed by the banker should be in proportion to the anticipated turnover of the supplier for that particular product or product range. The indicator to monitor in this case is the investment cost compared with the value added of the supplier generated from the sale of this product. In this respect the donor and the supplier share a common objective. Increased sales of a particular BDS. The donor/facilitator's offer then consists of:

- ◆ Access to the PSP's market information database (the results of our survey) and some assistance for them to undertake smaller more detailed surveys of their own.
- ◆ Help to identify and define new product concepts built on the core competence of each separate supplier.
- ◆ Capacity-building (learning new skills) in order to adapt to this new market.
- ◆ Awareness/Understanding creation through events, meetings or other promotional means to stimulate increased first-time purchase.
- ◆ Trial marketing to test customer feedback so that adaptations in product design and delivery can be made.

¹⁰ Feedback on this offer was gathered from suppliers at the end of a three-week mission aimed at assessing supplier capacity to respond to the BDS market needs identified in the larger survey. Marshall Bear was the lead consultant in this mission.

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4.2 Supplier Reactions

The general feedback from the suppliers was, as might be expected, mixed. Many of them could see, for the first time, the volume of the market in which they operate and at the same time get an impression of which way the donor market was moving on this issue. The comments on this offer from the suppliers were collected in the form of a SWOT analysis, and a summary is presented below.

On the positive side:

We feel that the offer builds on our core competencies.
 It challenges the entrepreneurship of our firm as well as the individuals in it.
 It opens up a new and potentially viable market.
 The costs and risks of getting into this new market are reduced.
 The technical assistance is not superfluous but tailored.
 The market data confirmed our "gut" reaction that there is a market.
 The traditional donor market in Private Sector assistance is drying up anyway.
 It gives us the chance to lead rather than copy, innovate rather than follow.
 It provides the opportunity to increase our competitiveness.

On the negative side:

We are thinly spread already and this will stretch us even further.
 The risks are higher with the Private Sector and the rewards less than with donors.
 It is an offer suited to those suppliers with excess capacity.
 Other donors in the social sector may continue to distort the market.
 Other donors may not agree with this approach.
 The approach may not work at the micro-enterprise level (they still can't pay).

4.3 Indicators

The table below presents the some of indicators that lend themselves to this kind of project.

	Short Term	Medium Term
Market Indicators	<ul style="list-style-type: none"> ◆ Change in prices paid for selected BDS 	<ul style="list-style-type: none"> ◆ Increased average consumption of BDS by the private sector ◆ Increased proportion buying BDS
Firm Level Indicators	<ul style="list-style-type: none"> ◆ Number of firms purchasing BDS ◆ Before and After questionnaires (customer satisfaction) 	<ul style="list-style-type: none"> ◆ New business practices introduced ◆ Attribution to success questionnaires (impact)
Supplier Indicators	<ul style="list-style-type: none"> ◆ Turnover from new BDS products ◆ Self-financing ratio (% of subsidies/product sustainability) 	<ul style="list-style-type: none"> ◆ Change in the % of turnover from BDS
Project Efficiency	<ul style="list-style-type: none"> ◆ Number of partners ◆ Number of new products 	<ul style="list-style-type: none"> ◆ Product development costs in proportion to product turnover

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5. Conclusions

The commercialisation of BDS products: In the past most donor interventions were oriented to helping suppliers obtain the basic skills to assist small businesses and then financing their delivery. A large portion of these projects “whither and die” when donor assistance dries up. Now, there is not much call for this kind of project. Many of the suppliers have found, however, that they can sell their skills to many other donors both in the social sector as well as in the small enterprise sector. These suppliers are already, for the most part, sustainable. The next logical step in the sustainability ladder is to assist these same suppliers to commercialise their skills in the delivery of BDS to the private sector at all levels of enterprise. This does not imply ignoring “virgin” suppliers like accounting, advertising and computer firms who have not traditionally served the donor market. If they can be assisted to satisfy the unmet demand at the lower end of the market, this would also be a credible role for a donor. The challenge for suppliers at the upper end of the client market is how to deliver tangible results, while the challenge at the lower end is how to generate revenues from a very heterogeneous market segment that is so widely dispersed.

Flexibility in design: This type of project requires a more entrepreneurial approach from the donor/facilitator. Projects like this need more: applied marketing research to be done, a constant scanning of the market for new opportunities, skills in product development, a capacity to make many more deals with many more partners, and sharper focus in terms of costs versus outcomes. This emphasises the need for a much more flexible approach where project packages are made on demand and delivered at the appropriate time rather than according to a plan which is “cast in stone” at the beginning of a project. In a supply oriented project it is common to identify the problem at the beginning of the project and then systematically supply quantities of various solutions at a predetermined rate throughout the life of the project. In a demand oriented project the “goal posts” are constantly changing. In many cases we have to respond quickly to unpredictable behaviour changes in suppliers. Ambitious goals can be fixed but strategies and tactics have to be more open to maximising opportunities for higher impact.

Multi-partner approach: Projects like this will change the relationships that we have with our traditional counterparts. This will entail moving away from the single to multi-partner approach, where relationships are in a constant state of flux and are based on negotiated win-win scenarios. Supplier sustainability is no longer at the core of the project objective but rather sustainability of the supplier’s output. Suppliers are more plentiful in the market now, so rather than being concerned for the survival of any one in particular, the attention is shifting to how to sustainably maximise output with whatever capacity that exists. The essential skills that the supplier now needs are how to stay in touch with the market and how to develop sustainable products that respond to that market. Our relationships are therefore more short-term oriented and conditioned by the anticipated volume of BDS output at sustainable prices.

Consensus with other donors operating in whatever market area is chosen, is critical to success in this kind of project. Markets are easily distorted and good suppliers are always in demand from donors. Even with the best of intentions this can happen. This calls for closer collaboration on a day to day basis to clarify intentions and

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strategies that donors have with respect to individual suppliers, to ensure that the same message is being sent. This is much easier in a small country like Nepal but undoubtedly very complex in other larger economies where the emphasis on spending is powerful.

Equity and access: Never before has “poverty alleviation” been such a prominent factor in the allocation of donor budgets. Projects are funded or rejected on how well they can establish a direct relationship between what they do and how this can reduce poverty. There is strong pressure to spend more in this area. More, however, is not always better. In fact less is often better. The demand-oriented approach implies the judicious and measured disbursement of assistance where demands are strong. In such cases it should be possible to do more with less. This assumption is applicable at all levels of the income spectrum. In low income conditions where BDS demands are weak, the emphasis should be placed on awareness creation, making products that are less expensive, and inducing trial rather than simply increasing the consumption of a BDS to a target group that does not understand its value in the first place. A certain amount of discipline is required by donors in these circumstances to ensure that “for the sake of equity and poverty alleviation”, the demand oriented framework is simply overlooked. It may be rational that, in a poverty situation where the demand is weak, 90% of a budget is spent on demand creation and the development of cheap but effective products and only 10% on easing access to BDS.

Have we been so wrong for so long? There is a tendency with any new approach to rush to the extreme, and to condemn the previous approach for its simplicity and naïveté. Are we to assume that there have never been any serious attempts to measure impact even at low price levels? Has the quality of BDS never been an issue? This would be far from the case and would ignore the vast amount of good work that has been done in this field. There are still some hypotheses in this new model which need further exploring, such as the relationship between price paid, quality received and impact on the person/enterprise/economy. At the same time one could still ask, is there a modified supply side approach which avoids both the wastage of past interventions on the one hand, and the apparent tendency of the demand oriented approach to sell only to those who can afford to buy? Do we need to go to the extremes before finding a “middle ground”? These are questions that we as donors need to continuously ask along the way in order to ensure that we have not simply replaced one dogma with another.

This is still a relatively new paradigm for most of us in this field. Fortunately, however, there is a lot of experience to harness. To a large extent this paper and the design of this project in Nepal is a result of the interaction and dialogue that has been going on in this field since the Rio Conference. The Virtual Conference on the PMF and the subsequent discussions on case studies stimulated by the MBP initiative of USAID, have provided practitioners an opportunity like never before to exchange and develop ideas in a relatively supportive environment. As the tools for being “demand led” begin to emerge and as we gain familiarity with them we can expect to see a new crop of better designed projects that do indeed deliver more for less.