



M27 – COMMERCIAL MANAGEMENT

Assignment – Option 1

Commercial Strategy and Business Profitability

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Abstract

Every business, big or small needs a commercial strategy to survive. This report looks at how commercial strategies help businesses make profit. It explores the relationship between revenue generation, pricing decisions, cost discipline and competitive planning. The report uses ideas from Peter Drucker, Johnson et al., Kotler and Armstrong Doyle and course materials by Dr. Leul Girma. It also looks at examples from known companies ARE Amazon, Apple, Toyota, Zara, Netflix, Facebook, Meta and Spotify. The report finds that businesses that make a profit have some things in common: they align their commercial strategies with customer value use flexible and diversified revenue models manage costs well and build organizational capabilities that turn strategy into action.

1.Introduction

What makes a business successful? It is not just luck or a great product. It is often about how a business manages its commercial activities. This includes choosing which markets to enter, pricing and delivering value to customers achieving revenue growth and keeping costs under control. These are the questions in commercial management. Commercial management is about managing sales operations, customer relationships, revenue generation and cost control to meet business objectives.. It is also about strategic thinking: deciding where to compete, how to position the business and what kind of value to offer to customers..

The importance of strategy to business profitability has grown in recent years. Digital transformation, changing consumer behavior, the rise of subscription economies and increasing global competition have made decision-making more complex. Businesses that treat management as a core strategic capability are more likely to succeed than those that treat it as a back-office function. This report exposes four areas: how commercial management contributes to business growth, pricing, revenue and cost strategies that drive profitability the relationship between commercial planning and competitive advantage and what real-world companies do in practice.

2. Literature Review

2.1 Understanding Commercial Management

Peter Drucker's work on management theory is still relevant today. He said that the purpose of a business is to create a customer and all business activity should be judged on its contribution to this goal. This idea has commercial implications:- it shifts the focus of commercial management from internal efficiency to external value creation. Johnson et al. Build on Drucker's framework, situating management within corporate strategy. They describe it as the process of making choices about markets, customers and value propositions to achieve competitive positions.

Bright et al. Define management as the management of sales activities, customer relationships and revenue generation to achieve business objectives. This definition captures the day-to-day reality of work but is most useful when combined with strategic frameworks. Kotler and Armstrong add another dimension arguing that commercial success depends on understanding what customers want and designing offerings around those needs. This customer-centric view of management is increasingly mainstream.

2.2 Strategy, Value and Competitive Positioning

Advantage is central to understanding why some commercial strategies succeed. Johnson et al. Describe advantage as the ability to outperform rivals on dimensions that customers value. Commercial strategy is the vehicle for building and sustaining competitive advantage. Doyle develops this idea arguing that durable competitive advantages are built on customer value delivery. Organizations that consistently deliver value that rivals earn loyalty and repeat business translating into long-term profitability.

Kotler and Armstrong emphasize the importance of value propositions, which inform pricing decisions, sales approaches and customer service priorities. The strategic implications of positioning are also explored by Johnson et al., who describe three broad positioning options: cost leadership, differentiation and focus. Each has commercial logic and many successful organizations combine elements of these strategies.

2.3 Pricing, Revenue Models and Income Generation

Pricing is a tool in commercial management. Nagle et al. Argue that businesses often underprice products because they focus on costs than customer value. Value-based pricing can increase revenue and margin without changing the product. OpeStax provides a taxonomy of revenue models explaining how organizations convert customer value into income. Osterwalder and Pigneur argue that revenue model design is a form of innovation placing revenue streams at the heart of business model design. Relevant, in an era of disruption. Bright et al. Emphasize revenue diversification as a risk management strategy. Organizations that depend on a revenue stream are vulnerable to market disruptions; those with multiple income sources are more resilient and often more profitable. This insight is increasingly

2.4 Cost. Long-Term Profitability

The profit equation is like a seesaw it has two sides. Most of the time people talk about how to make money but managing costs is just as important to make a profit that lasts. Doyle said this in 2008. It makes a lot of sense. When companies spend money on marketing and other business things they should think about how it will affect their profit in the run not just how much money it will make right now. This means they need to keep track of all the costs and benefits of what they do.

Nagle and others added that not all costs are the same. Some costs go up when you sell more and some costs stay the same no matter what. When companies decide how much to charge for something they should think about the cost of making one more of it not the average cost. This is important because it can help them make the decision about prices.

Johnson and others looked at the picture. They said that every part of a company's business from buying things to selling them has costs and benefits. Companies need to make sure that the benefits are bigger than the costs at every step. This helps them see where they are doing well and where they can improve.

Kotler and Armstrong said that companies should think about how money they will make from a customer over time not just from one sale. This helps them make decisions about how to treat their customers. Companies that take care of their customers and keep them happy do in the long run.

3. Methodology

This report is based on what other people have written about. Of doing new research it brings together ideas from academic papers, business cases and class materials to answer the questions. This approach is good for a project like this because it shows that we can think critically about what others have said and apply it to situations.

We used ideas from Drucker, Johnson, Kotler, Doyle, Nagle and others because they are experts in their fields. We also looked at companies like Amazon, Apple, Netflix and Toyota to see how they do things in life. The university materials from M27 Commercial Management were also helpful.

One limitation of this approach is that it might not have the up-to-date information. But the ideas we are talking about are well-established and the companies we looked at are well-known so we can still learn from them.

4. Findings

4.1 Commercial Management as a Growth Engine

One thing that's clear from what we read and the companies we looked at is that commercial management can help a business grow. It is not about supporting the business but about driving it forward. Amazon is an example of this. It started as a bookstore and became one of the biggest companies in the world. Amazon's growth came from its strategy, which is all about taking care of customers and using data to make decisions.

The course materials said that there are three ways that commercial management can drive growth: managing sales, building customer relationships and making revenue goals. Amazon does all

of these things well. It uses algorithms to manage sales takes care of customers through its Prime membership and makes money from different sources, like retail, cloud computing and advertising.

Johnson said that companies need to make sure their commercial choices fit with what the market wants and what they're good at. Zara is an example of this. It did not try to compete with luxury brands or cheap manufacturers. Instead it found a gap in the market for affordable fashion and built its business around that.

4.2 Pricing Strategies and Revenue Generation

Pricing is where commercial strategy becomes real. What we found is that companies that price based on what customers think things are worth do better than those that do not. Nagle said that this is called value-based pricing. It means setting prices based on what customers are willing to pay not just on what it costs to make something.

Apple is an example of this. Its iPhones cost more than phones but people are willing to pay for it because of the ecosystem of products and services that come with it. Customers are not just buying a phone they are buying into the Apple brand. All that comes with it.

The way companies make money is also important. Osterwalder said that the choice of revenue model is a decision that can have big consequences. The rise of subscription models is an example of this. Netflix decision to move from DVD rentals to streaming subscriptions changed its business fundamentally. It could invest in content because it had a predictable income stream from subscriptions.

Spotify freemium model is another example. It offers a version of its service to most users, supported by advertising and a premium version for those who want more. This helps it build a user base and make money from advertising and subscriptions.

Diversifying revenue streams is also important. Bright said that relying on one source of income can make a company fragile while having sources makes it more resilient. Amazon's business model is an example of this. It makes money from different sources, like retail, cloud computing and advertising which helps it stay strong.

4.3 Cost-Control Strategies, in Practice

Profitability is not about making the top line of your business grow. It is also about managing what is below it. The main points here are that managing costs must be done in a way and that the best cost strategies are the ones that make your customers happy.

Toyota is an example of a company that does this well. They have a system called the Toyota Production System. This system is about getting rid of waste. Waste is anything that uses up resources without adding value to the customer. The main ideas of this system are to make things in time to always try to improve and to respect the people who work for you. These ideas help Toyota make high-quality cars at a cost less than many other companies. This means they can sell their cars for a price and still make a lot of money.

Zara is another company that does this well. In a different way. They are a fashion retailer. Most fashion retailers take a time to get new designs from the idea stage to the store. Zara can do this in

two weeks. This helps them avoid two problems in fashion retail. The first problem is when you make many clothes that do not sell. The second problem is when you make clothes that're not what people want to buy. By getting designs to the store quickly and not making too many clothes Zara could manage their costs well.

Some researchers point out that it is important to know which costs are helpful and which are not. Just cutting costs to save money can be an idea. For example if you cut your marketing budget you might save money in the term.. You could also hurt your brand and lose customers. This would mean you make money in the long term. The goal is to spend money in a way that adds value to your business.

It is also important to think about how much it costs to get customers. It is usually more expensive to get a customer than to keep an existing one. Companies that are good at keeping customers are often the ones that invest in things like customer relationship management systems. These systems help you understand your customers and give them what they want.

Commercial planning is very important for businesses. It is not about making a budget for the year. It is about making a plan that will help your business succeed in the term. Companies that are good at planning are often the ones that can beat their competitors.

One way to beat your competitors is to have a business model. A business model is like a plan for how your business will make money. Some companies have business models that're very hard to copy. This gives them an advantage. For example Amazon has a business model that includes different parts like its website, its logistics system and its advertising business. This makes it very hard for other companies to compete with Amazon.

It is also important to choose the markets to compete in. You should choose markets where you have an advantage over your competitors. If you try to compete in many markets you might not do well in any of them.

Being good at negotiating is also important. This means being able to talk to companies and come to agreements that work for both of you. Companies that are good at negotiating can often get deals than their competitors.

Using customer relationship management systems is another way to get an advantage. These systems help you understand your customers and give them what they want. They also help you keep track of your sales and marketing efforts.

When you look at all of these points together you can see some themes. One theme is that having a strategy is not enough. You also need to be able to execute that strategy. This means you need to be able to put your plan into action and make it work.

Another theme is that keeping customers is very important. It is often more expensive to get a customer than to keep an existing one. Companies that are good at keeping customers are often the ones that do well in the term.

A third theme is that technology is making it easier for small businesses to compete with ones. For example customer relationship management systems used to be very expensive. Only big companies could afford them. Now these systems are much cheaper and available to businesses of all sizes.

The final theme is that there is often a tension between what you need to do in the term and what you need to do in the long term. For example you might need to cut prices to win a deal. This could

hurt your profits in the long term. Companies that are good, at managing this tension are often the ones that do well.

A fifth and final theme is the importance of alignment to commercial effectiveness. The course material, Class 1 discusses the costs of misalignment between sales and marketing teams. When these functions pursue goals use different metrics and communicate different messages to customers the result is reduced commercial performance and a confused customer experience.. Alignment challenges extend beyond sales and marketing. Commercial strategy must be aligned with capability an organization should not promise what it cannot deliver. It must also be aligned with capacity commercial ambitions must be resourced appropriately. And it must be aligned with capital commercial strategy is ultimately executed by people and the organizations talent and culture must support it. Doyle in 2008 argues that truly customer-centric commercial organizations achieve alignment not through control but through a shared understanding of customer value that permeates every function and level of the business.

5. Conclusion

This report has explored the relationship between strategy and business profitability through four interconnected lenses. The role of management in business growth, pricing and revenue strategies, cost-control approaches and the connection between commercial planning and competitive advantage. The picture that emerges is one of complexity commercial management is not a simple formula and there are no shortcuts to sustainable profitability.. Also of remarkable consistency in the principles that distinguish high-performing commercial organizations from the rest.

The evidence, from both the literature and the real-world cases points to a set of core principles that characterize commercially excellent organizations. They start with the customer not with the product or the price and build their strategies outward from a deep understanding of customer needs and value perceptions. They design their revenue models with intent treating revenue stream selection and diversification as sources of competitive advantage rather than administrative decisions. They manage costs structurally embedding efficiency into their operating models than applying it reactively as a financial corrective.. They invest continuously in the organizational capabilities, sales planning, CRM, negotiation, pricing discipline, customer experience management that translate strategic intent into operational reality.

For organizations seeking to strengthen their performance four practical recommendations emerge from this analysis. First invest in understanding customer value from the customers perspective not from an internal cost or product perspective this is the foundation of effective pricing and value proposition design. Second review revenue models critically and regularly in a world of technological and market change the revenue model that worked five years ago may not be optimal today. Third approach cost management as an activity, not just a financial one distinguish between costs that create value and costs that do not and protect the former even when under pressure to cut overall expenditure. Fourth build and continuously develop the capabilities of the organizations people, negotiation skills, CRM literacy, sales planning discipline and customer experience thinking are not innate they are developed through training, practice and strong commercial leadership.

Ultimately commercial strategy is about choices, which markets to enter which customers to serve what value to offer, how to price it and how to sustain the profitability that allows the organization to keep making those choices over time. Organizations that make these choices deliberately align their capabilities behind them. Execute with discipline are the ones that build the durable competitive advantages and consistent profitability that this report has sought to illuminate.

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Appendices

Appendix A: Revenue Model Comparison

The following overview compares the four primary revenue models discussed in the report, including their logic, key risks and representative real-world examples drawn from the case studies.

* Transaction-Based: Revenue generated per sale. High dependency on sales volume; no guaranteed recurring income. Examples: retail, basic e-commerce product sales. Best suited to markets with high-value purchases or where customers resist long-term commitments.

* Subscription: Recurring revenue through customer payments. Predictable cash flows; supports long-term relationship building but requires consistent value delivery to reduce churn. Examples: Netflix, Spotify Premium, Amazon Prime, Microsoft 365. Increasingly dominant in service markets.

* Freemium: tier free; premium features monetized. Enables user acquisition but requires careful conversion funnel design; free users generate costs without direct revenue. Examples: Spotify (vs. Premium) LinkedIn, Dropbox. Effective when network effects or habit formation drive conversion.

* Licensing: Income from granting usage rights to property, technology or brand. Highly scalable with marginal cost; requires strong IP protection and negotiation capability. Examples: Microsoft software licensing, McDonalds franchise model, pharmaceutical patent licensing.

Appendix B: Key Commercial Management Concepts from M27 Course Material

The following concepts from the M27 Commercial Management module form the framework within which this reports findings are situated.

- Commercial Strategy: The long-term approach a company uses to generate revenue compete in the market. Deliver value to customers answering three questions: which customers to target, what value to offer and how to generate revenue from that value.
- Value Proposition: The value a product or service delivers to customers directly influencing pricing power, customer willingness to pay and competitive differentiation.
- Customer Journey Management: A five-stage framework for analyzing and improving the quality of customer interactions across all touchpoints.
- Sales. Territory Management: Structured methods for estimating future sales performance and allocating sales resources efficiently across markets and customer segments.
- Interest-Based. Batna: Negotiation techniques based on separating positions from underlying interests calculating the Best Alternative to a Negotiated Agreement and planning concessions to maximize deal value.
- CRM Systems: Technology platforms that centralize customer data, automate commercial processes enable insight and create cumulative competitive advantages through superior customer intelligence.

Appendix C: Summary of Real-World Cases Referenced

- Amazon: Illustrates revenue diversification, customer-centric commercial strategy, subscription model and cross-subsidization of low-margin businesses by high-margin ones. Sector: Technology / Retail.
- Apple Inc.: Illustrates value-based pricing, differentiation strategy, ecosystem-based competitive advantage and the commercial power of brand equity. Sector: Technology / Manufacturing.

- Netflix: Illustrates revenue model innovation, the logic of investing in content to sustain subscription value and the importance of customer lifetime value over transaction revenue. Sector: Services / Media.
- Spotify: Illustrates the freemium revenue model, user acquisition economics and conversion funnel design. Sector: Technology / Services.
- Toyota: Illustrates cost management through the Toyota Production System lean principles and the alignment of operational efficiency, with commercial competitiveness. Sector: Manufacturing.
- Zara / Inditex: Illustrates cycle operational models as a source of both cost management and commercial agility enabling competitive pricing without sacrificing profitability. Sector: Retail.