Trident University International

Module 1 --- MGT 599 Session Long Project

**A review of each product:**

The first product is X5. In terms of performance customers do not worry about performance. It has been on the market for 3 years. X5 is expensive that other similar products in the category. Last year, X5 was in the growth stage of the product life cycle. When the product is in the growth stage of the product life cycle, research and development expenditure is required. The product quality must be maintained and additional features and support services need to be added. Till X5 remain in the growth stage the pricing strategy can be continued, however in the current year X5 could have entered the maturity phase of the product cycle. In such a situation the price may have to be lowered to maintain the market share. Research & development is required to identify the current stage of the product lifecycle of X5. This will help determine the distribution strategy of X% and the promotion expenditure that may be incurred.

The second product is X6. This is a tablet computer which is on the market for two years. Since, X5 and X6 belong to the same industry we surmise that X6 is also in the growth stage of the product life cycle. The customers of X6 seek performance. This means that they are not sensitive to price. This behavior of the customers is reflected in the default prices. X5 is $285 but X6 is $430. Research and development expenditure is required to improve the performance of X6. The customers are seeking quality. Higher prices can be maintained of X6, as it is definitely in the growth phase and the customers are not price sensitive. Additional, research & development expenditure is required to improve the distribution of X6 and promotion is required to make the product know to the discerning customers. One of the key advantages Clipboard Tablet Co enjoys is that the performance of X6 is better than that of other tablets in the same category.

The third product is X7. This is a newly introduced product. X7 is in the introduction stage of the product life cycle. The default price of X7 which is $195 also reflects its position in the product life cycle. It is the lowest price among the three products. If we run X7 with default values we get a profitability of -73% for 2012.

During the introduction stage Clipboard company has to incur expenditure for product branding and setting performance levels. The pricing of X7 is penetration pricing that is designed to build market share. Alternately, some firms keep a high skim pricing to recover development costs. In addition, considerable costs are incurred to reach out to innovators and early adopters. Promotion costs for X7 are likely to be high. Overall the product is likely to remain unprofitable for a considerable period of time.

Default Simulation by Joe: 2011

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Product | Price | R&D | Results | X5 | X6 | X7 |
| X5 | 265 | 33% | Marketing | 968,979 | 562,961 | 0 |
| X6 | 420 | 34% | Financial | 276,159.075 | 242,073,200 | 0 |
| X7 | 195 | 33% | Total Score: | 291,574,881 |  |  |

Default Simulation by Joe: 2012

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Product | Price | R&D | Results | X5 | X6 | X7 |
| X5 | 265 | 33% | Marketing | 1,647,592 | 1,288,999 | 165,586 |
| X6 | 420 | 34% | Financial | 468,563,899 | 554,269,513 | 31,461,253 |
| X7 | 195 | 33% | Total Score: | 352,144,973 |  |  |

**Financial Review:**

The financial review of X5 shows that profitability is increasing for X5. It has increased from 16% to 30%. In addition, the default price is $285. The fixed costs for X5 are $75, 000,000. This is relatively high. Overall even though the profitability shows that there is growth, the maturity stage could be reached since the product is already in the market for three years.

The financial review of X6 shows that profitability for X6 has also increased from 16% to 28%. In addition, the default price is high at $430. The fixed costs of X6 are $37,500,000. When compared with X5 this is an advantage. A lower fixed cost means the contribution increases with increase in volume. X6 is in the growth stage and can maintain the higher price of $430 because its customers are performance seeking. They are not price sensitive.

The financial review of X7 shows that profitability for X7 has started with a minus 73 percent. The default price is $195. The fixed costs are $37,500,000 and these are not covered by the revenues earned. The volume is low. When compared with other tablets X7 is likely to remain unprofitable for a considerable period of time. An increase in volume and contribution is expected only when X7 reaches the growth stage of the product life cycle.

Default Simulation by Joe: 2013

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Product | Price | R&D | Results | X5 | X6 | X7 |
| X5 | 265 | 33% | Marketing | 2,145,622 | 2,134,931 | 237,202 |
| X6 | 420 | 34% | Financial | 611,502,211 | 918,020,206 | 46,068,385 |
| X7 | 195 | 33% | Total Score: | 830,740,435 |  |  |

Default Simulation by Joe 2014

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Product | Price | R&D | Results | X5 | X6 | X7 |
| X5 | 265 | 33% | Marketing | 1,853,177 | 2,364,061 | 338,448 |
| X6 | 420 | 34% | Financial | 1,016,546,240 | 528,155,442 | 64,305,057 |
| X7 | 195 | 33% | Total Score: | 1,319,039,222 |  |  |

**Market Review:**

New sales can be expected in case of X6. It is definitely in the growth phase. New customers can be acquired for X5 however this may be at the cost of lower prices. For X7 acquiring new customers is expensive. Cost has to be incurred to reach innovators and early adaptors. Repeat sales for X5 will be moderate. The repeat sales will depend on the price of X5 as well as performance of X5 compared to those of other competitors. Repeat sales for X6 will be high.

Since, the performance of X6 is better than that of competitors, there will be full repeat sales. Since, X7 is newly introduced; there are not repeat sales for X7. The first product that will reach market saturation is X5. This can occur in 2012 or 2013. When this happens X5 can face declining sales. Market saturation will also be reached for X6 when it reaches the maturity stage. This will occur after X5 reaches its maturity stage. This can occur in 2014 or in 2015.

Default Simulation by Joe: 2015

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Product | Price | R&D | Results | X5 | X6 | X7 |
| X5 | 265 | 33% | Marketing | 963,776 | 1,118,142 | 479,827 |
| X6 | 420 | 34% | Financial | 274,676,048 | 480,801,048 | 91,167,056 |
| X7 | 195 | 33% | Total Score: | 1,513,237,527 |  |  |

**Alternate Strategy:**

The alternate strategy for four year 2012 -2015 having the objective of increasing the total score will be to increase the R&D expenditure of X5 and X6 during the first two years. This will lead to higher sales of both these products.

During the third and fourth year, I will increase the research and development expenditure of X6. The purpose is to get the highest possible profits from X5 and X6. The strategy will be first increase the price of X6. The price of X6 can be increased because the demand for X6 is inelastic. If performance is maintained or enhanced, the price of X6 can be increased without the danger of reducing the revenue. In fact both the total revenue and profits from X6 will increase with moderate increases in price. In case of X5 the strategy will be to maintain the price till total revenues begin to decline. Since, the customer is price conscious, a moderate increase in prices can lead to a decline in total revenues. The moment X5 revenues decline, the prices of X5 will be decreased to protect the market share.

The profitability figures show that if the research and development expenditures are increased for X5 and X6, there will be an increase in the revenues and profits. During the years 2012 and 2013 the research and development expenditure for X5 will be maintained at the same level as for X6. During the years 2014 and 2015 the research and development expenditure for X6 will be increased to higher levels than X5.

It is expected that during 2014 and 2015, X5 will face a market shakeout. Serious declines in revenues of X5 can be expected during these two years. The main purpose for developing X7 would be future growth and profits. What strategies we are using now is to address the profit (or score) during the period 2012 to 2015. During this period having X7 can mean loss eating into the profits made by X6 and X5.

If our focus is limited to the years for which the simulation is run in my opinion the best option would be to eliminate X7. This will reduce the loss making product for the period and help us achieve higher scored. The decision to eliminate X7 depends on the priorities of Sally Smothers. If she does not mind eliminating X7 you can go ahead with its elimination. The elimination of X7 is an intelligent and informed product development and pricing decision. Since, the period of time allotted to us is four years, and our target is to maximize the score, X7 is a hurdle. The volumes are low, there is loss incurred, and costs are high. Even if one X7 is made, the fixed cost of $37,500,000 will be incurred lead to losses for Clipboard. One strategy for X7 can be to reduce the research & development expenditure for X7 the other alternative is to discontinue X7. Only if the explicit objective is given to develop new products for period beyond 2012, X7 is a drain on the earnings of Clipboard Tablet Company.

References:

http://forio.com/simulate/alikassim/tablet-development-sim-23/run/#p=page1