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Module 1 SLP

MGT 599: Strategic Review

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###### Strategic Review

We will analyze the default decisions made by Joe, in which he did not make any changes on R&D, pricing, etc. throughout the period. Let us review this from the start of the simulation.

At the end of 2011, the profit was 81, 571,138. At this point of time, X5 was in the growth phase and costlier than most products in the category. Further, X6 was better than competing tablets. The market for each of the three devices was far from saturation. X5 and X6 had a profit margin of 16% and X7 was yet to make a contribution to the profit. X5 had a good installed base but X7's market potential or target market size was high as compared to the other two.

Now, we run the simulation for 2012 by keeping the decisions intact, i.e., default decisions. This decision will be intact throughout the simulation.

Pricing:

X5: 285  
X6: 490  
X7: 190

And R&D:

X5: 33%  
X6: 34%  
X7: 33%

After running the simulation, the profit at the end of 2012 was 352,144, 973. Customers were willing to pay more for X6 than other products in the category. X6 was in the growth phase with strong market potential. X5's performance was comparable with other players in the category. There was a strong growth in the sales of X5 and X6. The sales of X7 also started to kick in. The profit margin for X5 and X6 increased strongly.

If we analyze these decisions, I can say that Joe missed the opportunity to earn higher profits by keeping the price higher for X5, which was in the growth phase. If he had reduced the price little bit, he would have captured higher market for X5. Further, X6's price could have been higher because it was superior to other products in the category. Joe should have reduced price for X5 and increased for X6 in order to capture higher sales, as well as should have diverted higher percentage of R&D to X6 and X7.

Now, let us make the decisions for 2013 by keeping the pricing and R&D percentages intact.

After running the simulation, the profit at the end of 2013 was 830, 740, 435. The advisor said that X7 was priced higher than peers but lacked in performance and the market for this one was in growth phase. We observe that the market for X5 is moving towards saturation. The potential for X7 is huge and X6 is also showing good promise. X5's profitability has improved but X6 has stolen the show in terms of overall revenues. X7 is yet to breakeven.

If we analyze the decisions, Joe should have put more money in R&D in order to maintain the premium positioning and superior performance of X6 that had the capability to command premium pricing. Further, Joe should have reduced the R&D expenditure on X5's R&D as it was approaching saturation and the performance as comparable with other peers. Joe should have started to divert more resources to X7, which needs attention.

Now, let us move towards 2014. Ideally, based on the advisor's report, Joe should have diverted higher percentage of R&D to X7 as it is a market with great potential and highly unsaturated. Further, the product is lacking performance. Pricing should be reduced as well. The resources spent on R&D of X5 should be diverted to X7 and X6 and X5's market is reaching saturation and the product does not require innovation. However, Joe kept the decisions intact, just like above, and the results were as follows at the end of 2014.

Total profit was 1,319,039,222. Advisor said that the pricing of the products was competitive with other products. X5 had reached a shakeout phase and new sales are declining. X5's market was moving towards full saturation and thus, the decision of Joe to keep the R&D intact for this one was not right. X6's market was also approaching saturation. X7's market was still virgin and yet to be fully exploited. X6's sales and profitability was still growing and thus, Joe should have diverted R&D resources to X6 and X7, as it was not useful to keep on spending on X5, which has reached a saturation stage. X7 needed lot of attention in terms of R&D in order to tap the full potential of the market.

Based on the above situation, Joe should have scrapped R&D spending on X5 and should have diverted entire set of resources between X7 and X6, which were promising markets for the company. However, Joe kept the decision intact. Let us see the results in 2015. At the end of 2015, the profit was 1513, 237, 527. X5's sales have reached maturity and thus, Joe should not have put so much money in R&D of this product as it is only generating replacement sales and thus, R&D is not required. X7 is the new star of the company and thus, entire focus should be on this product. R&D should be diverted to this product in order to capture the market potential. X6 is the cash cow and still generating majority of the profits, but market for both X5 and X6 have reached saturation. The company does not need to spend on R&D of X5 and X6 as majority of the sales is replacement sales.

The strategy going forward should be to exploit the X7 market whose saturation level is just 5% and thus, the company should focus on improving the performance of this product in order to capture higher market share.

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