**CASE 4: Pricing Light Bulb Market**

|  |  |  |
| --- | --- | --- |
| **Case No.** | **Chapters** | **Case Title** |
| **4** | **8** | **Pricing: Acme Lamp Company** |

You are the marketing manager for Acme Lamp Company. Acme specializes in the manufacture of lamps (light bulbs) for industrial applications. You are in charge of launching Acme’s new LED-12 light emitting diode (LED) lamp. The LED-12 uses an array of 12 high-intensity LEDs to replace a standard medium-base incandescent lamp. As part of the launch plan, you must select a price. You have the following data:

|  |  |  |
| --- | --- | --- |
| **Attribute** | **Data** | **Description** |
| Investment | $20,000 | Money invested to develop product |
| Fixed Cost | $10,000 | Overhead costs not changing with quantity produced |
| Variable Cost | $10 | Labor and material costs to produce each unit  |
| Unit Sales | 5,000/ year | Quantity of units forecast to sell **at $20 per unit** |
| Unit Sales, Max | 10,000/ year | Constraint on production; Maximum production quantity |
| % Markup | 20% | Desired return on sales |
| Target ROI | 20% | Target return on investment for new projects |
| LED-12: Life | 24 months | Long life due to rugged LED design |
| Existing lamps: Price | $1 | Price of existing lamps: Incandescent and CFL |
| Existing lamps: Life | 3 months | Shortened life due to severe conditions in industrial plant |
| Existing lamps: Labor | $20/ lamp to replace | Labor cost to replace existing lamp |
| Price elasticity | 1 | % change in demand given a % change in price |

1. Calculate the target price using Markup/ Cost-Plus pricing.

|  |  |
| --- | --- |
| **Pricing Calculations** | **Results** |
| Unit Cost |  |
| Markup Price |  |

2. Calculate the target price using Target Return pricing.

|  |  |
| --- | --- |
| **Pricing Calculations** | **Results** |
| Unit Cost |  |
| Target-Return Price |  |

3. Calculate the target price using Value-In-Use pricing. Assume industrial plant uses 100 lamps.

|  |  |
| --- | --- |
| **Pricing Calculations** | **Results** |
| Current cost |  |
| Value In Use Price |  |

4. Calculate the target price using the Optimal Price Analysis: <http://www.ccdconsultants.com/calculators/optimal-price-analysis.html>

|  |  |
| --- | --- |
| **Pricing Calculations** | **Results** |
| Optimal Price |  |