## Introduction & Corporate Strategy

The stable of products at Tablet Development Corporation (TDC) consists of three different offerings. The X5 serves the entry-level, budget conscious consumer. The X6 caters to the technology savvy, performance conscious consumer. And the X7 balances the strengths of each. When Mr. Schmoe took over in 2012, TDC balances research and development equally among all three products. No product is focused on, assumedly due to Mr. Schmoe's confidence in TDC products dominating the aggregate tablet computer market. What is missing from TDC's business strategy is a focus on market segmentation, with a eye on product life cycle and profitability.

## X5—Segmentation for Budget Focused Consumers

Marketed as the tablet for budget conscious consumers more concerned with price than performance, the X5 represents the median of TDC's product line in terms of price and performance. X5 tablets are priced at $265 with a performance rating of 1.05 beginning in 2012. With the default research and development investment, these values remain steady.

| X5 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Price | $265 | $265 | $265 | $265 |
| Performance | 1.05 | 1.05 | 1.04 | 1.04 |

**Table 1: X5 Product Performance Under Joe Schmoe**

Early in its product life-cycle, the X5 performs favorably against competition. Sales grow steadily through 2012, but as the maturity phase develops during 2013, sales drop off sharply, (Marketing Teacher, 2000). Without the benefit of price cuts to stimulate further demand, the X5 rapidly transitions into the later stages of its product life cycle.

| X5 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Sales | 1,859,856 | 1,427,666 | 701,981 | 520,480 |
| Revenue | $492.86 M | $378.33 M | $186.03 M | $137.93 M |
| Variable Cost | $269.68 M | $207.01 M | $101.79 M | $75.47 M |
| Total Cost | $348.94 M | $286.27 M | $181.05 M | $154.73 M |
| Profit (%) | $143.92 M (29%) | $92.06 M (24%) | $4.98 M (3$) | -$16.80 M (-12%) |

**Table 2: X5 Financial Performance Under Joe Schmoe**

## X6—Segmentation for Performance Focused Consumers

The X6 constitutes TDC's top of the line technology focused on consumers that seek a high performance tablet and that are willing to pay a premium for it. Opening in 2012, the X6 is priced at $420 with a relative performance rating of 1.29. Without adequate R&D to retain its competitive technological edge, this performance rating slips each subsequent year.

| X6 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Price | $420 | $420 | $420 | $420 |
| Performance | 1.29 | 1.26 | 1.25 | 1.23 |

**Table 3: X6 Product Performance Under Joe Schmoe**

The X6 enjoys strong sales entering 2012—the core of its introduction phase. This growth, however, plateaus into 2013, and then falls off sharply through 2014. As the X6's performance falls off closer to 1.0, its competitive advantage rapidly degrades—it clearly is not receiving the R&D investment required in order to serve its target market segment. As Table 4 shows—the initial promise of the X6's introduction phase never survives its shakeout against competition.

| X6 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Sales | 1,873,457 | 1,926,943 | 817,324 | 566,026 |
| Revenue | $786.85 M | $809.32 M | $343.28 M | $237.73 M |
| Variable Cost | $487.01 M | $501.01 M | $212.51 M | $147.17 M |
| Total Cost | $530.58 M | $544.49 M | $255.99 M | $190.65 |
| Profit (%) | $259.27 M (33%) | $264.83 (33%) | $87.29 M (25%) | $47.08 (20%) |

**Table 4: X6 Financial Performance Under Joe Schmoe**

## X7—Segmentation for a Balanced Customer

The X7 represents TDC's product offering for the aggregate market. It neither focuses on price-point, nor performance advantage. The X7 is a product for a mature tablet market—with consumers looking for a value based on a balance between required performance and price. As an emerging product category, the X7 opens 2012 at $195 with a relative performance index of 0.86— this combination illustrates the immaturity of the product in relation to the corporate strategy in which it fits. R&D invested in the X7 improves its performance rating throughout the time horizon considered, but never to the level required to meet its competition.

| X7 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Price | $195 | $195 | $195 | $195 |
| Performance | .86 | .88 | .89 | .90 |

**Table 5: X7 Product Performance Under Joe Schmoe**

The X7 is an introductory phase product that never quite breeches even the shakeout phase of its lifecycle. Sales growth grows steadily, albeit anemically through 2015. With its relative performance slightly increasing, and constant price point, the market slowly catches onto its inherent value provided… just not nearly fast enough to offset initial losses at its subsequent growth rate. Additional R&D as well as active pricing are required to improve the X7 performance illustrated in table 6.

| X7 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Sales | 222,622 | 317,093 | 448,436 | 627,242 |
| Revenue | $43.42 M | 61.83 M | $87.44 M | $122.31 M |
| Variable Cost | 13.36 M | 19.03 M | $26.91 M | $37.63 M |
| Total Cost | 56.62 M | 62.29 M | $70.17 M | $80.89 M |
| Profit (%) | -$13.21 M (-30%) | -$0.45 M (-1%) | $17.28 M (20%) | 41.42 (34%) |

**Table 6: X7 Financial Performance Under Joe Schmoe**

**What Value Cost Accounting Suggests for R&D Investment**

Unit contribution margin is defined by the difference between revenue (R) and variable costs (VC)—where variable costs consist of whatever input per unit is required to prepare it for sale (Vakkur, n.d.):

**R-VC= CM (in dollars, per unit or gross) or CM= VC/R (in percent)**

Calculating CM allows a quick snapshot of operating leverage—or how sensitive income is to fluctuations of sales (Importance of Contribution Margin, 2009). Dividing CM by operating income returns operating leverage— a scalar assigned, arbitrary unit. This tool provides leadership a simple, overarching picture of how potential investment (expressed as additional fixed costs) would impact business performance. In other words—how profitable is a specific product, and what sort of return can be expected on R&D investment.

Value cost accounting has its limitations, however. First and foremost, it is concerned with only the current time assumptions. Changes in the target market such as consumer preferences and perceptions are not considered. Additionally, technological advances in the product are also ignored. For this reason, value cost accounting should be used relatively short-term for pricing decisions, with market research forming the core of a corporate strategy.

**Tablet Computer Consumers— Segmenting the Current and Future Market**

The tablet computer is an emerging product. For this reason, TDC should seek to target as specifically as possible the aggregate market. This should be done through market segmentation. This allows TDC to "target different categories of consumers who perceive the full value of certain products and services differently from one another," (Investopedia, 2011). As an emerging product market, the tablet computer market will not apply to the general population. Only liberal and technical liberal type decision makers will even consider a table

purchase. Liberal decision makers are "regularly looking for new solutions, willing to make changes… if the benefit can be shown," (Center for Business Planning, 1994). These consumers can be considered potential—albeit conservative—entrants into an established tablet product. They are the future of the market—and will eventually gravitate to the X7's value based technology. The technical liberals, "enamored with the benefits provided by high tech solutions," will make their decisions based on the "technical content of the offering," (Center for Business Planning, 1994). These are the early adopters of emerging products and will form the core segment to provide TDC a steady stream of revenue at the outset of the business plan.

**Marketing Strategy Reconsidered**

Tablet Development Corporation has missed a golden opportunity over the past four years. The emerging market for tablet computers provided the chance to translate revenue from X5 and X6 sales to early adopters into R&D applicable to the broader market through a focus on development of X7 technology.

2012 should cease R&D into X5 technology, and apply the additional resources evenly into X6 and X7 advances. With the X5 reaching maturity in late 2012 to early 2013, additional R&D does not return additional sales in subsequent years. Improvements to the X6 and X7 performance will, however, translate into a more competitive shakeout phase for the X6, and aid in the X7 capturing a greater share of the broader tablet market in subsequent years.

2013 should include some pricing changes to reflect the reality of a declining X5 and X6 competitive advantage. This should translate into prolonging the life-cycle of the price-point focused X5 for the budget-conscious consumer segment. Additionally, if R&D is unable to keep the X6 on the cutting edge of performance, realistic price cuts should ensue. The high-tech segment of the market is highly sensitive to relative performance, and will not pay a premium for

a product without the perception of increasing powerful performance. The X7 should continue its steady growth through 2013, with significant R&D invested in order to posture its future as the core of TDC product offerings as the table market matures and extends further into the broader computer market.

2014 should have constituted some difficult decisions—foremost the discontinuation of the X5 in favor of a focus on the X7. While additional R&D into the X6 should have prevented the steep decline in sales. The two additional years of development into X7 performance would likely support a price increase with little drop-off in sales during 2014. The reality of the steady growth of the X7 is testament to the maturation of the tablet market as a whole—as the market grows and broadens beyond the liberal and technical liberal, more conservative consumers will be looking for a balanced approach at a tablet product.

2015 would have provided significant payoff in the X6 and X7 market with price increases in the X6 commensurate with R&D payoffs and a broad market appeal on a more competitive X7 model. With the X6 likely reaching maturity in 2015, a sales plateau would be likely—presenting a difficult decision between continued R&D or price cuts in the coming year. That decision is well beyond the scope of the Marketing department—however rather than riding the obsolete X5 into the red, a cutting edge, and performance focused X8 model should have been considered for introduction around 2016. The bulk of TDC's revenue would be with the broadly appealing X7—which is where the branding and advertising efforts would be focused throughout a mid-term time horizon. With 2016-2020 centered around a mature X7 market, a declining X6 market, and the important introduction of an X8 to keep the TDC brand synonymous with cutting edge performance.

## REFERENCES

Tables were all developed with default assumptions as available on the Tablet Development Simulation. Retrieved July 2011 from http://forio.com/simulate/jelson/tablet-development-sim/simulation/#p=page0

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