CASE 12:
RADIATOR FINS FOR DEFENSE AIRCRAFT

Firm Style	Interview Round
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Case Question:

Our client is negotiating the price of radiator fins which are used in defense aircrafts. What should be an appropriate price for a radiator fin?

Clarifying Questions & Answers

Provide the following answers only if the interviewee asks the corresponding questions.

Question	Answer
What does the client do?	They are a defense aircraft manufacturer.
Who is the client negotiating with?	An existing supplier who has been supplying these products for the last 10 years.
Where is the client based?	They are based in the United States.
What is the function of a radiator fin in aircraft?	Cooling the aircraft engines.
Is there specific leverage for our client in the negotiation?	By regulation, defense manufacturers can obtain the cost structure from their suppliers.

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Framework / Structure

This is a typical pricing case. The analysis may include, but is not limited to, the following areas:

- Industry Analysis
- Pricing Strategy – Market-based pricing, value-based pricing, cost-based pricing.

Strong Plan

A strong plan should discuss the analysis along with the drivers such as market based pricing is driven by market competition and cost base pricing is driven by supplier's cost structure

Weak Plan

Weak plan will discuss only the pricing strategy without any drivers. For example it can include cost structure in cost based pricing but will not break it further into components and its drivers.

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Interviewee: How many suppliers are there in the market?
Interviewer: Our client's supplier is the only one in the market.

Expected Insight: We don't need to consider market-based pricing since there is no competition. Interviewee: Is there a substitute product for radiator fins?

Interviewer: No, the client cannot substitute the radiator fins with any other product. Interviewee: What is the value proposition of this product?
Interviewer: The radiator fins are essential for the aircraft to function.

Expected Insight: The product has high value for the client but given that our client is a defense manufacturer who can obtain the suppliers" cost breakdown, value-based pricing is not viable.

Interviewee: Let's discuss the cost structure of the supplier.
Interviewer: Excellent, what do you need?
Interviewee: Recommended cost structure is as follows:

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Cost Components	Drivers
Raw Material	Prevalent market price
Labor	Geography and labor market
SGA including overhead	Efficiency
Allocated fixed cost	Utilization and scale
Transportation	Geographical distance, weight, volume and mode of transport.

Cost Component		Old	New
Production Cost	Material	$300	+7%
	Labor	$100	-2%
	SGA	13%	
	Total	$452	
Transportation	12 fins per box	$5000/box	-12%
Margin		20%	
Final Price		$1042.4	

Note: An average interviewee will only calculate the change in cost structure and then decide on the negotiation price, while a strong interviewee will challenge even the old cost structure.

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Calculations

Old price after margin is $1042.4 per fin and as per calculations the new price is $1008.16.

Recommendation

The recommendation should include the following:

- The answer – as per cost modeling, final price should be $1008 and we should negotiate for the lower price.
- Risks or considerations – we added margins on top of transportation cost, if that is not the case final number may be different.
- Next steps – Do the cost modeling for the old cost structure to make sure it is accurate.