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## Philips: Pricing the LED Bulb (B)

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### The Situation One Year Later

Because the market for LED's is quite new, you can expect large shifts in the competitive dynamics of the marketplace. Just such a change happened for Philips. About four months after Philip's introduced its LED bulbs into the business-to-business (B2B) space, it noticed a major push by one of its competitors in the business-to-consumer (B2C) space. In particular, it noticed some apparent facts that were at odds with its initial analysis of how the business-to-consumer market would evolve. Of note:

- The shelf price of its competitor's bulb was about \$8.
- Because its competitor's technology was nearly the same as that used by Philips, its cost of production had to be about \$4 per bulb.
- Based on some information its competitor had shared with some equity (stock) analysts, Philips believed its competitor was making about \$2 profit per bulb.

Further, the U.S. federal government was in the final stages of enacting a 20% consumption tax on the residential use of electricity. That is, per-kilowatt-hour rates were set to increase 20% relative to their previous levels.

The B2B space had been modestly successful for Philips. In the first four months after introduction, it had sold 1.2 million bulbs to mostly large- and medium-sized businesses. The company's internal sales estimates suggested that annual sales would be about 5 million bulbs, but this number was unlikely to grow significantly because of the longevity of these bulbs and the resulting low demand for replacement bulbs.

The United States had about 125 million households, and each household used on average 50 light bulbs of which about half were inserted in A-type lamps with a medium-screw base that could be directly replaced with the Philips LED bulb. What was unclear was what proportion of these households would purchase LED lightbulbs given this new lower (\$8) price point.

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## Questions

- Please reexamine the B2C marketplace and determine whether it is now worth entering. As you analyze this you should consider:
  - The profit you are making in the B2B marketplace and how entry into the B2C market might diminish your existing B2B sales and profitability.
  - Will entry change your recommended price for the bulb in the B2B market?
  - What is the profit potential of the B2C marketplace?
  - At what price you should sell your bulb in the B2C space should you decide to enter?
- Do some field work and discover what's happening at a retailer near you. How are light bulbs being packaged and promoted? What deal and discount plans do you see? Based on what the competition is doing, recommend retail promotions Philips might follow if it enters the B2C space with its LED bulb.