

A background image showing four business professionals in a meeting. A man in a dark sweater is leaning over a table, pointing at a laptop screen. A man in a light blue shirt is sitting at the table, looking at the screen. A woman with dark hair is sitting next to him, also looking at the screen. A woman with curly hair is sitting on the right, holding a green pen. The image is dimmed with a dark blue overlay.

PHILIPS LED BULB PRICING STRATEGY

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Context and Problem Statement

Context

- *Philips LED has been recently introduced to the market at a \$20 price point. New technology, highly efficient and long life bulbs*
- *Strong competition with Incandescent and CFL bulbs, which although consume significantly more energy are cheaper to acquire*

Problem

- *Introducing the new Philips LED to the Market:*
 - *Target Market*
 - *Determine segments*
 - *Determine pricing strategy*

Executive Summary



Situation

- *Philips new LED light bulb is entering the market and faces competition from lower priced, older technologies*



Problem:

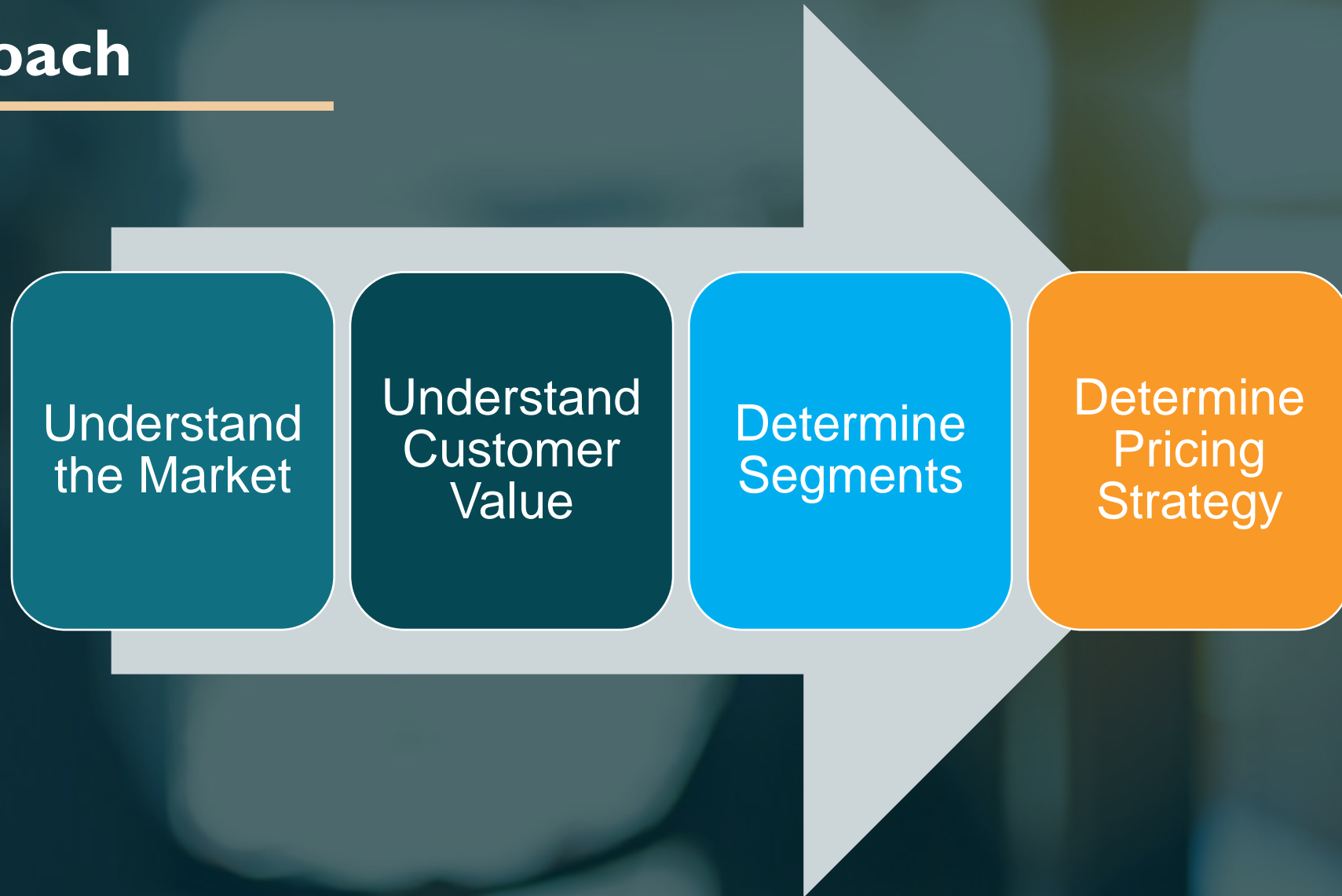
- *Other technologies are considerably lower priced*
- *Retailer margins for new technology are high*
- *B2C segment is highly price sensitive*
- *B2B segment is focused on performance and less price sensitive*



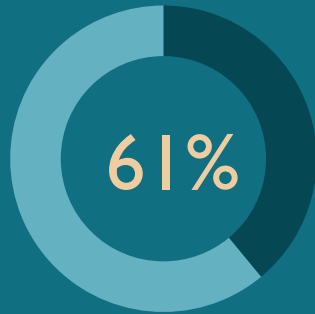
Solution

- Entering the B2B market at a \$13 price point is the right market move. Healthy margin and aligned values for both our company and our customers
- The B2C market is not ready to receive our product at a profitable price point
- Retailer margins need to be negotiated for a future market deployment in the B2C segment
- Educating the B2C segment in the overall value creation of our product during the lifespan will be the key to open up that market.

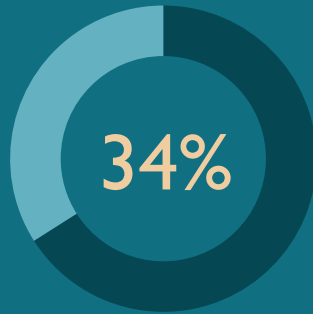
Approach



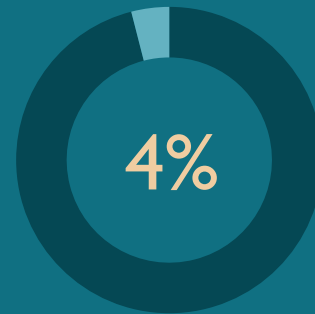
Understanding The Market: Market Share by Technology



Incandescent



CFL



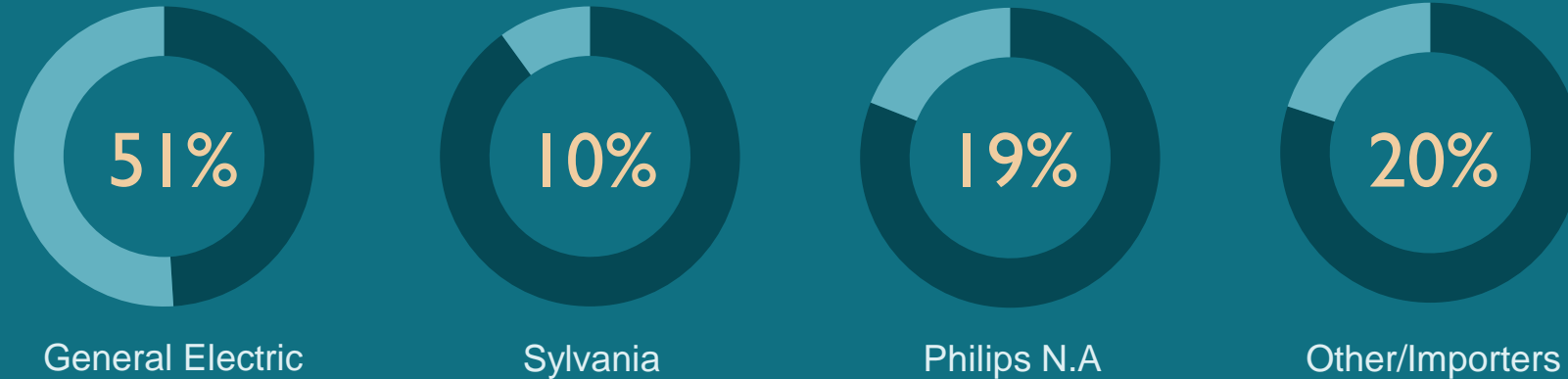
Halogen



LED

- Key aspects:
 - 65% of the market is capture by low efficiency, cheaper bulbs
 - CFL consumes twice as much energy as LEDs, and are priced at about 50% current LED pricing
 - Customers have been willing to switch from Standard white to Soft white (+\$0.20), making the switch to LED is a considerably larger jump (\$10-\$20)

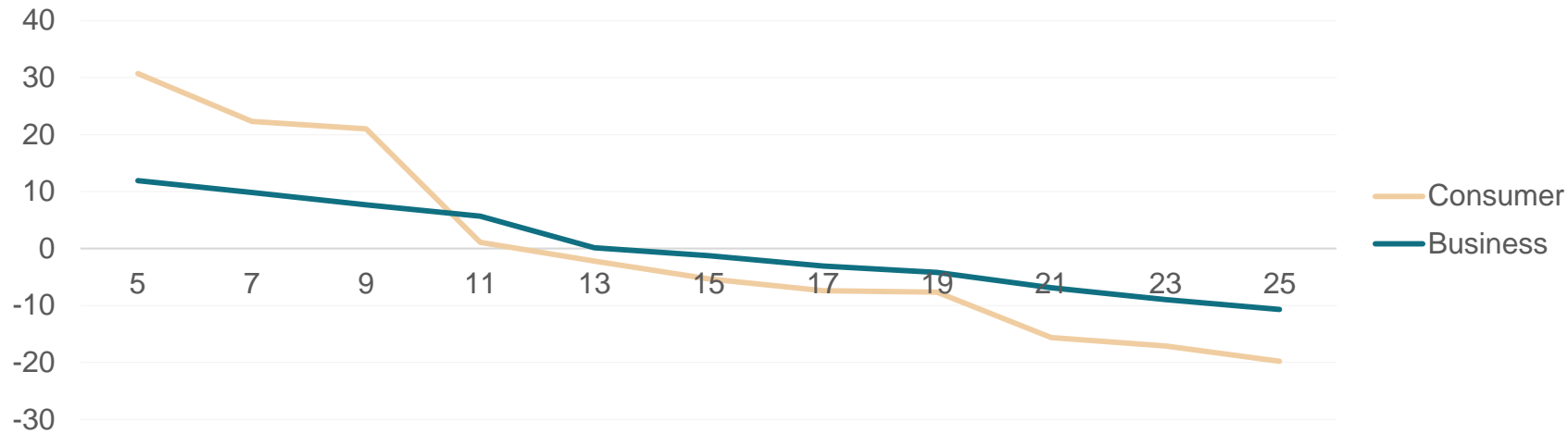
Understanding The Market: Market Share by Brand



- **GE:** Dominates US market. Broad geographical distribution and major supplier of **supermarket channel**. Efficient in production cost
- **Sylvania:** Focuses on emerging **wholesale clubs** and **home centers**
- **Philips:** Focus on innovation, struggling with consumer education
- **Importers:** have doubled their share over the past decade. Offer volume discounts. Popular in discount **outlets**

Understanding Customer Value – Price Sensitivity

Price and Utility



- Regular consumers are more price sensitive than business customers
- Businesses are more focused on other attributes (as shown later in the analysis), being less focused on price
- Considering high retailer margin, consumer price sensitivity poses a challenge, since the relation between profit and price utility goes in opposite direction

Understanding Customer Value – All attributes

Segment	Manufacturer	Watts	Lumens	Price
Consumer	12%	20%	22%	46%
Business	5%	39%	37%	19%

- The aspects that drive the most value for our product show little utility under current market conditions for Consumers. Education will be required to reshape the market and get it to a place where we can enter the B2C and be profitable
- Our product value and the Business Segment are aligned, performance and efficiency being a key aspect where we shine

Determine Segments

- With the considerations covered thus far the B2C market is not mature enough as for our product to be successful at a healthy price point. Higher cost to service and lower price tolerance are the main drivers. 55% retailer margin is also not manageable under the current market conditions
- The B2B market on the other hand should become our short term focus, high volume order and aligned values can ensure the success of the product deployment. 20% distributor markup is also healthier than costs required for the B2C segment
- Pricing for the B2B market is defined in the next few slides

Pricing Strategy – B2B

\$13

*Suggested Price
per bulb for the
B2B segment*

20%

*Distributor Markup
(\$2.6 per bulb)*

17.09

*Total utility for the
B2B segment at
this price point*

\$4

*Philips Cost per
bulb*

\$6.4

*Profit per bulb for
Philips (49.3%
GM%)*

Pricing Dynamics

Recommendations and Next Steps

- *Complete market analysis around the B2B market*
- *If no major findings, entering the B2B market is the best option at a \$13 price point*
- *Initiate conversations with retailers around adjusting their margin*
- *Further review the B2C market, consider educational campaigns around benefits of LED, leverage ecological approach*