

Evaluating Profitability of Business Strategy

A business is evaluating two different strategies: **Mass Market** and "**Divide and Conquer**" (**D&C**) Strategy.

The **D&C** strategy involves targeting two distinct segments (groups of users)

Mass market strategy is the "one size fits all" kind of strategy.

Profit Impact of targeting different groups of users

*cannot add % across

Business Strategy	Mass Market Strategy	Divide and Conquer Strategy		Divide and Conquer Strategy
		Premium Users	Value Users	
Market Demand (units)	3,000,000	1,000,000	2,000,000	3,000,000
Market Share of the business	5.0%	3.0%	15.0%	11.0%
Unit Volume of the business	150000	30000	300000	330,000
Average Price	\$1,500.00	\$2,250.00	\$900.00	\$1,022.73
Sales Revenues	\$225,000,000	\$67,500,000.00	\$270,000,000	\$337,500,000
Percent Margin	25.0%	40.0%	15.0%	20.0%
Gross Profit	\$56,250,000	\$27,000,000	\$40,500,000	\$67,500,000
Sales Expenses (% sales)	15.0%	20.0%	10.0%	12.0%
Sales Expenses \$	\$33,750,000	\$13,500,000	\$27,000,000	\$40,500,000
Net Profit	\$22,500,000	\$13,500,000	\$13,500,000	\$27,000,000

Note: All shaded cells without numbers could be filled out by calculations or based on numbers from other cells.

Compute the average price, sales revenues, percent margin, gross profit, Sales Expenses, etc.
for the premium and value groups. Calculate the figures for the overall summary.

Goal Seek (What-if analysis ---> Goal Seek)

*a "what-if" analysis tool that finds the input value needed to achieve a specific result in a formula

\$67,500,000.0

\$0.0 (this value must become 0)

\$67,500,000

*I improved my profit from \$22,500,000 to \$27,000,000 from shifting from Mass Market Startegy to Divide & Conquer Strategy.