

## The Facet Tablet\*

Nilesh went back to his hometown during the term break during his first year in the postgraduate program in management at WIMWI to find his father Mr. Gupta eagerly waiting to consult him on a business decision. Mr. Gupta owns a shop selling digital electronic equipment and computing devices. Apart from being inordinately proud that his son goes to school at WIMWI, he is proud that his shop is the go-to place for customers interested in the latest technology. The following is a snippet from their conversation about the business decision:

**Mr. Gupta:** Have you heard about this product called the Surface?

**Nilesh:** You mean the Microsoft Surface<sup>TM</sup>? Isn't that the tablet whose cover opens up as a keyboard?

**Mr. Gupta:** Yes, yes, the same one. Now I am planning to stock a product similar to Surface, but which costs much less.

**Nilesh:** Tell me about it.

**Mr. Gupta:** There is a company called MekTek, who are planning to come out with a product called "Facet". It is very much like the Microsoft Surface, but costs Rs.20,000 only, as opposed to the Surface, which sells in India for more than Rs.40,000. The physical dimensions of Facet are exactly the same as Surface, and the interface looks almost the same. Agreed that the processor is slightly slower, and the screen resolution is not as high quality, but at less than half the price, I am sure there will be people willing to pick it up.

**Nilesh:** What about the reputation of MekTek?

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\*Prepared by Profs. Apratim Guha and Diptesh Ghosh as a basis for class discussion. Cases of the Indian Institute of Management, Ahmedabad are not designed to present illustrations of either correct or incorrect handling of administrative problems.

**Mr. Gupta:** I think they have a reasonable reputation. They had earlier brought out a tablet which sold well. Their USP is their price, and customers know about the company and are not averse about using their products. I did not know about this Facet. A couple of days back their representative told me that they were planning to launch it next month, and asked me whether I was interested in a deal that they are suggesting. As per the deal, I could buy units of Facet in multiples of 100 units for Rs.15,000. If I buy more than 300 units, then they would sell the units to me at Rs.13500 per unit. They will be able to sell me up to 500 units at these prices. I have to tell them about my decision two days from now. I am planning to stock this item. Realistically, I do not see the demand for Facet being more than 500 units in the next three months. Now my question is, how many units do I order?

**Nilesh:** Two questions. First, if you buy more than 300 units, are they reducing the price for all the units you buy, or only for the additional units? And second, have you considered some kind of survey or market research to find out what the demand of this model will be like?

**Mr. Gupta:** They will be reducing the price for all units I buy if I order more than 300 units. And no, I have not conducted a survey simply because I do not have the time to do it. I have to decide on the numbers in two days. Also since the model has not been launched yet, most people will not have any clue as to what I am talking about.

**Nilesh:** Is there anything more about this Facet that you know?

**Mr. Gupta:** Well, the MekTec guy said that they were working on a more advanced version of Facet called Facet2. It will have a more powerful processor, longer battery life, a faster processor, and so on. They will price it higher, and once it comes out, the price of Facet will drop. The guy said that there is a 60% chance that Facet2 will launch in three months. If it does, the price of Facet will drop to Rs.10,000. Even if they are not in a position to launch it in three months, they plan to reduce the price of Facet to Rs.12,500 after three months. I think that once the price drops, I will be able to sell off any unit that I have left after three months pretty fast.

How should Nilesh advise his father?