

First Information

	Swing	Steady
Sales (Unit)	5000	5000
Price \$	10	10
Variable	2.5	5.5
Fixed Cost	35000	20000
Full Cost/month (\$)	9.5	9.5
Current Profit/month (\$)	2500	2500

Use the simple concept of contribution to **calculate** just the **change in profits** due to the **prop**
 Both have equal 50%-50% market share
 Note : Both the units are same initially for swing and steady

A.

How much additional profitability could each company earn by achieving a 20% and a 40% increase in sales?
 Would you recommend that either or both companies pursue this opport

Swing Manufacturing		
	Units	5000
	Selling Price	8.5
	Variable Cost	2.5
	Contribution Margin	6 i.e. 8.5-2.5
20% Increase in Sale	0.2	
	Units (After Increment)	1000
	Additional Profit \$	6000 i.e. 1000*6
40% Increase in Sale	0.4	
	Units (After Increment)	2000
	Additional Profit \$	12000 i.e. 2000*6

Both Companies should pursue this opportunity, Swing has additional pote

B.

Problem Statement: In fact, neither Swing nor Steady can effectively segment this market (e.g. everyone). Calculate the break-even sales changes for this opportunity for changes in profit for a 40% increase in sales. Briefly explain why this answer differs from part a.

Calculate the break even sales changes for this opportunity for each of them

Calculate the changes in profit for 40% increase in sales

Write why this answer differs from A.

Notes from the class:

% BE Sales Change = -Price Change/CM + Price Change

Unit BE Sales Change = % BE Sales Change * Initial Sales Volume

(Actual Units Sales Delta - Unit BE Sales Delta) * New Cost/Unit

Swing Manufacturers				
% BE Sales Change				Explanation
Price Change	-1.5			i.e {8.5 (Orig Price) - 10 (New Price)}
CM	7.5			- 2.5 (VC)}
% BE Sales Change	0.25	25%		{ -(-1.5) / 7.5 + (-1.5) / 7.5 }
Initial Units	5000			
After %BE Sale Chan	1250			i.e (5000 * 0.25)
Total Sales adding B	6250			
Change in Profit for 40% increase in sales be x .				
extracting units after				
0.4 increment	2000			
New CM	6			i.e 8.5-2.5
BE Sales Change	1250			
x	4500			(2000-1250) * 6

We can now say that, the 40% increase in sales would result in additional profitability for Swing.

We can say that, part b provides a more accurate reflection, considering Break Even Sales Change.

C.

Problem Statement Which competitor is better positioned to take advantage of this opportunity that neither company can segment the market, what advice would you give to Steady regarding this opportunity?

Swing Vs Steady Manufacturing

- a. Swing Manufacturing is better positioned to take advantage of this opportunity. High CM \$ i.e 7.5 compared to Steady which is \$4.5.
Considering New CM of \$ 6 post price reduction from \$10 to \$ 8.5 swing

- b. Advice referenced below

Advice	
Swing	
Swing should pursue the opportunity having +ve additional profit even after the price reduction and also seek opportunities to maintain or improve the Contribution Margin by reducing variable cost, and adding more value . Swing can afford to lose sales when they reduce the price	It is not advised to cut price. Steady manufacturing is better positioned to take advantage of this opportunity. The -ve additional profit of \$8.5 may be not be above 40%. Should seek option to reduce variable cost. Should seek for strategies to improve variable cost. Should opt for alternative market segments such as improving product quality or other market segments.

D.

Problem Statement Was Steady's decision to cut price financially justified?

1 Considering Price Cut

% BESC	-0.33333333	-33.33%	Price Change / CM

Steady would lose 33.33% , despite of 60%

It can be said that, lowering price or having a price cut would significantly reduce loss.
Clearly 33% loss is better than 60% loss (No Price Cut)

1.1 Also Price Cut

Price Change	-1.5	
Variable Cost	5.5	
Total Revenue	42500	8.5*5000
Units	5000	
Unit Price	8.5	

1.1CM	3
Total Revenue	42500
Total Variable Cost	27500
Fixed Cost	20000
P/L	-5000

Loss of 5000

2 Net Lose Sales	60%
Remaining	40%
Units Sold	2000
Unit Price	10
Total Revenue	20000
Total Variable Cost	11000
P/L	-11000

Keeping \$10 and n

Loss of 11000

3 If Steady Manufacturing is thinking of withdrawing from the market

Revenue	0
Variable Cost	0
Fixed Cost	10000 reduced by half as mentioned in the c
P/L	-10000

Loss of 10,000

Recommendation Steady Manufacturing's cutting price financially seems to be justified
Bearing a loss of 5000 is better than bearing 11000 loss
But if they can sell more than 7500 units that is their BEBP

E.

Problem Statement *Given the financial information that you have at this point, would Steady market altogether?*

Considering above calculation and information, the assumption that Steady's sales would increase. However considering the case where Steady is cutting off sales, it is advised to withdraw, as c

Scenarios could be

- Maintaining Price to \$10
- Cutting Price to \$8.5
- Withdrawing from market

We can laydown all 3 scenarios in a single matrix

	Withdraw	Price Cut	Same Price
Units	0	6000	2000
Price	0	8.5	10
VC/Unit	0	5.5	5.5
Revenue	0	51000	20000
Variable Cost	0	33000	11000
Fixed Cost	10000	20,000	20,000
P/L	-10000	-2,000	-11,000

Hence, Steady Manufacturing will not be in better off if they withdraw from this market altogether

F.

Problem Statement specialty widget manufacturer than it is currently as a commodity manufacturer.
Hint: to do in Question D), not the baseline of \$10.00 assumed in Questions A

Please consider Scenario 1 only as answer for the F.

Scenario 1 : Old Price = \$8.5			
Old Price	8.5	Old Variable Cost	5.5
Price Hike	6	Variable Cost Hike	3
New Price/unit	14.5	New Variable Cost	8.5
New Contribution Margin	6	Initial Units	5000
Old Contribution Margin	3		
Break Even Sales Point Using \$8.5 as old		Sales Change	
Price Change	6	Point	3300
CM	3		
BESCP	-0.6666666667		
BESCP %	67%	0.66	

Now add Incremental fixed cost over the new contribution margin to initial BESCP

i.e BESCP + FC/CM(new)	
Lets call this BE w/IFC be y	
y	3800

Steady Manufacturing should sell atleast **3800 units** to be more profitable as specialty widget.

Also Checking it with the old price \$10, to be not considered in answer the scenario 2

Scenario 2 : Old Price = \$10

Old Price	10
Price Hike	6
New Price/unit	16

Old Variable Cost	5.5
Variable Cost Hike	3
New Variable Cost	8.5

New Contribution Margin	7.5
Old Contribution Margin	4.5

Initial Units	5000
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Break Even Sales Point Using \$10 as old

Price Change	6
CM	4.5
BESCP	-0.5714285714
BESCP %	57.14%

Sales Change

Point	2857.142857
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Now add Incremental fixed cost over the new contribution margin to initial BESCP

i.e BESCP + FC/CM(new)	
Lets call this BE w/IFC be y	
y	3257

Steady Manufacturing should sell atleast **3257 units** to be more profitable as specialty widget.

G.

Problem Statement *How much additional profit would Steady earn as a specialty widget, given 3500 specialty units at a \$6.00 price premium?*

Considering Cost \$8.5	
Case Scenario Units	3500
Required Units Previous	3800
Unit Price	6
Additional Profit/Loss	-1800
Answer	Loss of \$1800

Lets assume now required units as per \$10	
Case Scenario Units	3500
Required Units Previous	3257
Unit Price	6
Additional Profit/Loss	1458
	Profit of \$1458

MK864 D1/D2 Pricing Strategy and Tactics
 Swing vs. Steady Individual Assignment D2 - Oct 2nd
 Prateek Naharia

posed price changes.

unity?

Steady Manufacturing			
	Units	5000	
	Selling Price	8.5	
	Variable Cost	5.5	
	Contribution Marg	3	ie. 8.5-5.5
20% Increase in Sales	0.2		
	Units (After Incre	1000	
	Additional Profit \$	3000	1000*3
40% Increase in Sales	0.4		
	Units (After Incre	2000	
	Additional Profit \$	6000	

ntial profit, may find it compelling to enter the low- level segment.

ach must charge one price to
 or each of them. Calculate the
 swer differs from your answer in

5) }

Steady Manufacturers		
% BE Sales Change		
Price Change	-1.5	
CM	4.5	
% BE Sales Change	0.5	50%
Initial Units	5000	
After %BE Sale Change	2500	
Total Sales adding BESC	7500	
Change in Profit for 40% increase in sales be x. extracting units after 0.4		
increment	2000	
New CM	3	
BE Sales Change	2500	
x	-1500	

g ManufacHere for Steady Manufacturer, we can say that 40% increment in the sale

nge Units which wasnt in Part A & both the parts differs as in because of the new pri

ity? Assuming
ive to Swing and

rtunity.

is at better position and has more margin & even with BE Sales Units swing has +ve

Steady
enter market at this point of time for ers. profit indicates that price reduction to ; right option, unitl should boost sales is to improve contributonal margin. ategies, which would reduce the native strategies to be in the market, product quality, customer service or ents

= -1.5/4.5	OR (with 5.5 Margin)	-0.2727272727	-1.5/5.5
		-27.27%	

y better than not cutting of price and bearing 60% loss in sales.

o price change

case

be better off to withdraw from this

ase if they lowered their price, they will not be better off if they withdraw.
calculated above in D that profit losses will be greater if they withdraw from this market

ier.

acturer?
A and B earlier.

Old Fixed Cost	20000
Fixed Cost Hike	3000
New Fixed Cost	23000

3300

Old Fixed Cost	20000
Fixed Cost Hike	3000
New Fixed Cost	23000

2857

en its minimum case scenario of



⇒ additional profit of \$4500

at altogether.

Total Units Required

	Per Unit	Total
Units		5000
Price	4	
Sales		20000
VC	0.55	2750
CM	3.45	17250
FC	15000	
Operating Profit		2250

How much would sales have to increase to make a 5% price reduction profitable for the followi

	Per Unit	Total	5% Reduction
Units		1000	
Price	10		9.5
Sales		10000	
VC	8	8000	
CM	2	2000	
FC	1600		
Operating Profit		400	

Break Even Sales Price		Delta CM/CM
5% price reduction	\$9.50	
Variable Cost	8	
CM	\$1.50	
Contribution Margin	-0.5	
Break EVEN	0.33333333	33.33%
Units Required	333.333333	
Total	1333	

Delta Break Even -8.33

Now change in units is 25%

1.5	-83	-124.5	-125
	11875		
	12666.635		
	791.635		

Again now, we are required to sell 333 units more to reach the break even point

If 400 units

1.5 67 100.5 101

What if the change is less and what if the change is more - basically range between 25% to 40

Healthy Spring Water				
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Price per unit 20
 Units 2000
 Sales Revenue 40000
 Incremental Variable 16000
 Non Incremental Variable 20000

	Per Unit	Total
Units		2000
Price	20	
Sales		40000
VC	16000	32000000
CM	-15980	-31960000
FC	20000	
Operating Profit		-31980000

Drop the price by 20%

4

Original Price \$20

	Per Unit	Total
Units		2000
Price	24	
Sales		48000
VC	8	16000
CM	16	32000
FC	20000	
Operating Profit		12000

8

Price Change 4

CM 8

0.333333333

If we increase 20% Price

Now 15% decline in sales of 2000 bottles

15% of 2000 300 Bottles
 now 1700
 Sales Total 34000

	2000	1700	
Delta unit change		-300	
Unit BE Sales Delta		-500	
		200	3200 200*16
			4 dollars increase 12 to 16

After following the pri 3200 is Springs contribution increase

% BE Sales Change = -Price Change/CM +- Price Change

Unit BE Sales Change = % BE Sales Change * Initial Sales Volume

(Actual Units Sales Delta - Unit BE Sales Delta) * New Cost/Unit

BE Calculations with a change in Variable Cost

Add 1\$ to the VC

VC		1
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Price Hiked		20%
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-(Change in Price - Change in VC) / CM + (Change in Price - Change in VC)

VC		9
New CM	24-9	15

		4-1	3
Old CM		12	
		-0.166666667	

		18
-3/12+3	0.2	20% 400 Units

Increase advertisement	900
Initial Sales	2000

0.028125

60

Units -400 -340

BE = -Del CM/CM+delCM

-3/12+3 -0.2

Price per unit	20
Units	2000
Sales Revenue	40000
Incremental Variable	16000
Non Incremental Variable	20000

8

	Per Unit	Total
Units		2000
Price	20	
Sales		40000
VC	16000	32000000
CM	-15980	-31960000
FC	20000	
Operating Profit		-31980000

2a: What is the minimum sales gain that this company would require to make a 10% price cut |

10% Price Cut \$18

CM 20-8 12

New CM 18-8 10

Del CM -2

Break Even Sale Char-(-2)/12+(-2)

2/10

0.2

20%

400 Initially

500/10 50

1 Additional Truck req 400

700 Bottles 2700

ing product:

Range Between 125 to 101

) % Actual Sales Increase

profitable?